FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Brazil: good news helps ease debt gloom, Page 6

World news | Business summary

US ready to rush Honduras $20m aid

US President Ronald Reagan is to rush $20m in emergency military aid to Honduras after reports of a large-scale incursion by Nicaraguan Sandinista forces, US officials said yesterday.

The White House said Honduras had requested the aid on Monday after a Nicaraguan force reportedly numbering 1,500 launched a drive against anti-Sandinista contra rebels based on its soil.

US aircraft have begun airlifting Honduran troops to the border with Nicaragua in what is seen as a dangerous escalation of border tension. Aid approved, Page 6

Storms kill 15

At least 15 people have died and 15 are missing after the worst storms in half a century lashed Western Europe. An oil drilling platform with 28 men aboard was secured to a tug after drifting for 15 hours in heavy seas off the west coast of France.

Tokyo attack

Homemade rockets fired from parked cars hit the US Embassy and landed in the grounds of Tokyo's Imperial Palace, raising concern over the safety of visitors at the approaching seven-nation summit. Page 4

Belgian austerity

Belgian Prime Minister Wilfried Martens has signalled that he will take austerity measures within days of a parliamentary vote expected today to give his Government special economic powers.

Marcos decision

The Swiss Federal Council will decide today whether to confirm its instructions to six Swiss banks to freeze the assets of former Philippines President Marcos. The banks have criticised the move as damaging to Switzerland's reputation for banking secrecy. Page 20

Pakistan gun battle

Hundreds of police in the southern Pakistani province of Sind fought gunbattles with prisoners who took part in a mass jailbreak on Sunday, after surrounding them in a private hunting ground.

Captive 'ill'

A telephone caller who contacted a newsagency in Beirut and said he spoke for the captors of kidnapped journalist Alec Collett, said the 64-year-old Briton was dangerously ill and told the UK to send medicine for him.

UK wins contract

One of the biggest contracts in south-east Asia ever awarded to a British company has been signed in Malaysia by Biwater, but the announcement was clouded when the UK Government declined to confirm the deal until the details were finalised. Page 12

Israeli plan

Israeli Prime Minister Shimon Peres' Labour Party has drawn up guidelines under which Israel would withdraw from most Arab territories occupied since the 1967 Middle East war.

Township deaths

Five South Africans, including a white policeman, died in township rioting in which three of the victims were burned alive by crowds, police said.

Copyright bill

Singapore, regarded by western nations as a haven for music and computer pirates, introduced a Copyright bill in Parliament which it hopes to have passed by the end of the year.

Prankster's speech

Embarrassed Israeli officials said they were investigating how a clerk gained access to Foreign Minister Yitzhak Shamir's computer and as a prank altered the text of a speech he was due to deliver.

LME to reform trading system

LONDON Metal Exchange, struggling to recover from the tin crisis, bowed to heavy pressure from regulators and some of its members and decided to replace its principal-to-principal dealing system with a clearing house. Page 13

THE UK Government's bill to privatise British Gas completed its House of Commons stages with an 86 vote majority and now goes to the House of Lords. Earlier story, Page 14

WALL STREET: The Dow Jones industrial average closed 4.34 down at 1,778.50. Page 49

LONDON fell sharply lower for the second consecutive session as lower oil prices dashed hopes of lower interest rates. The FT Ordinary index recorded its largest loss in points terms of 29.9 to 1,364.7, and the FT-SE 100 index sustained its biggest fall of 30.1 to 1,633.8. Page 40

TOKYO: The US-Libya conflict dampened enthusiasm and the Nikkei average plummeted 146.36 to 14,820.87. Page 49

DOLLAR was firmer in London, rising to DM 2.3385 (DM 2.2885), SFr 1.959 (SFr 1.917), FFr 7.1725 (FFr 7.02) and Y180.2 (Y178.85). On Bank of England figures the dollar's exchange rate index rose from 116.1 to 119.7. Page 33

STERLING fell 2.7 cents against the dollar in London to $1.462. It was also weaker at Y263.5 (Y268.25) but rose to DM 3.4175 (DM 3.405), SFr 2.885 (SFr 2.855) and FFr 10.4875 (FFr 10.4525). The pound's exchange rate index fell from 75.9 to 75.4. Page 33

GOLD fell $3.375 an ounce on the London bullion market to $347.375 but was $1.25 higher in Zurich at $351.75. In New York the April Comex settlement was $344.0. Page 32

THE MAJOR industrialised countries' economies should grow by as much as 3.25 per cent this year after the steep fall in oil prices, according to studies by the Organisation for Economic Co-operation and Development in Paris.

US CONSUMER prices registered their first decline in more than three years in February, falling 0.4 per cent, largely because of downturns in energy and food prices. Page 20

BRITISH AEROSPACE, aircraft, missiles and space group, increased pre-tax profits by 25 per cent last year to £150.5m ($219m). Lex, Page 20; Details, Page 26

CONSORTIUM of British and West German companies has negotiated a $650m deal for the construction of a second aluminium smelter in the United Arab Emirates. Page 7

MANUFACTURERS HANOVER, US banking group, is selling its mortgage operations for $260m to Fireman's Fund, insurance group spun off by American Express last year. Page 21

FRAMATOME, French nuclear plant manufacturer 40 per cent-owned by the nationalised CGE group, showed sharply higher earnings of FFr 656m ($93.7m) against FFr 13.4m in 1984 mainly as a result of expanding French nuclear power capacity. Page 21

NEC, Japanese electronics company, launched a legal counterattack on Texas Instruments, US group suing Japanese and Korean companies for patent infringement. Page 7

HIRAM WALKER, Canadian distiller and energy group, plans legal action against Gulf Canada for allegedly excluding its US shareholders from a C$1.2bn (US$857m) takeover offer launched last week. Page 21

IBM'S new chairman will be Mr John F. Akers, 51, who is presently the US computer's group's president and chief executive. He succeeds Mr John R. Opel, who is retiring as chairman of the world's biggest computer company.

PENTAGON HINTS AT EARLY END TO MANOEUVRES

US forces make new attacks on Libyan targets

BY REGINALD DALE IN WASHINGTON AND ROGER MATTHEWS IN LONDON

THE US yesterday continued to retaliate against Libya for firing on US aircraft over the disputed Gulf of Sirte, attacking two more patrol boats and again striking a land-based missile station in a second round of the fighting that broke out on Monday.

In Washington, however, the Pentagon suggested that the US manoeuvres in and around the Gulf might end later this week, earlier than planned, if Colonel Muammer Gadaffi, the Libyan leader, stopped his missile attacks on US forces.

"If they stop shooting at us, we'll probably stop soon," said one official. The Pentagon later said that no Libyan forces had opened fire yesterday.

The Soviet Union was predictably vigorous in denunciation of US action. A Foreign Ministry spokesman said the US attacks broke international laws and were an obvious manifestation of American aggressiveness towards other states.

He added that the attack on Libya was another "provocation against the spirit of Geneva," a reference to the understandings on easing world tension reached by the leaders of the US and the Soviet Union last November.

Libya vowed yesterday that it would fight back against US "terrorism" and said that it would seek the full support of the members of the Arab League meeting at foreign minister level in Tunis.

Col Gadaffi received swift backing yesterday from Syria and Algeria, with other Arab countries expressing their concern at US action.

Demonstrators gathered outside the Belgian embassy, which handles US interests in Libya, shouting anti-American slogans. A radio commentator said the demonstrators were ready to form themselves into suicide squads and pledged that the Mediterranean would be turned into a sea of blood.

The White House said the latest round of US retaliation brought to a

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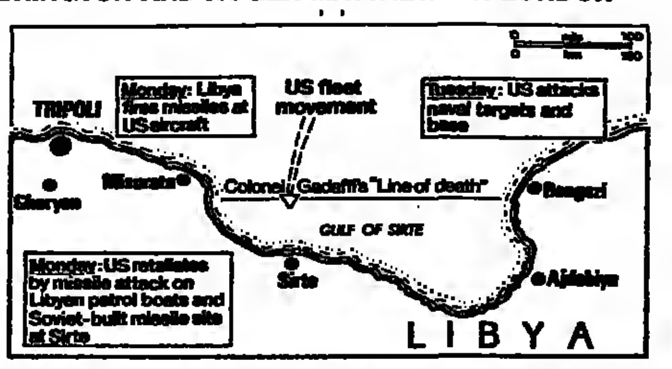

Background, Page 4; US aid to Honduras, Page 6; Editorial comment, Page 18

Mexico seeks $2bn less in foreign loans

BY PETER MONTAGNON IN SAN JOSÉ, COSTA RICA

MEXICO is to cut a further $2bn – making a total of $4bn – from its basic borrowing needs from foreign creditors this year.

In an unexpected and sharp reversal of its previous stand on foreign debt, Mr Jesus Silva Herzog, Finance Minister, also said that Mexico had dropped plans to negotiate interest-rate relief with commercial bank lenders.

The fall in oil prices since the start of this year had been "the largest external shock in our modern history," he told a press conference. Yet it was inevitable that a substantial part of this had to be absorbed by the domestic economy.

Borrowing from commercial banks would be held to a net $2.5bn this year, no more than Mexico had envisaged before oil prices started to fall, he said.

Mr Silva Herzog presented his new outline of Mexico's financing programme for 1986 after what are understood to have been tough talks with both senior bankers and US officials attending the annual meeting of the Inter-American Development Bank in San José.

He said the cut in Mexico's borrowing requirement still left a financing gap of $2bn, which would be met by a further boost in exports and through the launch of an innovative debt instrument whose value would be linked to the price of oil.

Plans for the new instrument were still very tentative and had not been discussed with bank creditors, he said. Mexico would, however, no longer be seeking below-market interest rates because banks had told him this would be "unreasonable".

Parts of his announcement came as a surprise to bank creditors in San José. They welcomed the cut in the basic borrowing requirement but said they would need more details on other aspects. Some were also surprised that there was no mention of a rescheduling of official debts through the so-called Paris Club of government creditors, which could save Mexico a further $1bn.

Mr Silva Herzog said higher than expected exports would be achieved both by a drive to promote sales of non-oil products and by a restoration to last year's level in the volume of oil sales to the US.

Bankers said this target might be hard to achieve, but a mitigating factor was the hope that further cuts in international interest rates might reduce Mexico's debt service bill this year.

In a message to bank creditors earlier this week, Mexico requested a further six-month extension on the maturity of $950m in principal payments due in the coming weeks.

Brazilian debt, Page 6

China faces cut in growth

By Colina MacDougall in London and Robert Thomson in Peking

CHINA'S economic growth rate is set to fall significantly below last year's level under the country's latest five-year plan announced yesterday by Zhao Ziyang, the Chinese premier.

Announcing the plan at the opening of the National People's Congress in Peking, he promised to keep the country on the path of economic reform for the next five years and to give growing management independence to factories and other enterprises. China had to overcome serious problems which limited its growth, he said.

Under the 1986–90 plan, industrial and agricultural output is set to rise by 6.7 per cent a year compared with the 11 per cent of the 1980–85 plan period.

During the current plan period China intended to develop an economic system different from the "ossified" model of the past and fundamentally unlike the capitalist system. China would develop a "socialist market" in which goods would be increasingly bought and sold without state interference, the Prime Minister said.

Reform of the prices system would continue by making prices more market-related. "We will gradually establish a system in which the state sets the price of a few vital commodities and labour services, leaving the rest to a pricing system under state guidance and market regulation."

Deng Xiaoping, China's supreme leader, emerged in public for only the second time in three months at the start of the Congress yesterday to meet Mr Poul Schlüter, the Danish Prime Minister. Diplomats commented that the timing of his appearance underlined the commitment of Deng and his reformist group to the policies proposed by Zhao.

The premier noted that a difficulty in the modernisation drive lay in trade. Exports should be increased after a year in which imports rose sharply and foreign exchange reserves fell.

To do so China must improve the quality of its exports, organise its export industries better and give a bigger role to the Special Economic Zones and the coastal cities which have special foreign investment policies.

Premier Zhao proposed that China should alter the composition of its imports, purchasing more advanced technology, key equipment and computer software, instead of consumer goods and simple machinery.

Continued on Page 20

London shares slide as dollar continues recovery

BY GEORGE GRAHAM AND DOMINIC LAWSON IN LONDON

SHARE PRICES fell steeply in London yesterday as the dollar continued its recovery from last week's depths. The FT Ordinary index dropped 29.9 to 1,364.7, and now stands 3½ per cent below the peak it reached last week.

Sterling suffered from the market's disappointment at the outcome of Opec's meeting in Geneva, but the dollar made up ground as dealers watched nervously for signs that the Japanese central bank might intervene in the markets.

But elsewhere in Europe, the prospects for lower oil prices buoyed sentiment and combined with the firmer dollar to push Paris and Stockholm to record highs. Most other bourses ended mixed to higher except for Amsterdam and Milan, where nervousness over the US–Libya conflict dampened trade.

The dollar has depreciated by 25 per cent against the yen since last September, when ministers of the Group of Five (G5) industrial nations agreed to concerted action to lower its exchange rate. Japanese exporters have seen their profit margins decline as a result, and officials in Tokyo have in recent weeks voiced their concern that the dollar might have fallen too far.

"The dollar has been on a one-way street all the way down since the G5 meeting in September, so you would expect corrections," said Mr Mark Austin, economist at Bankers Trust Company in London. "People are now looking for the levels they feel the central banks would like exchange rates to settle at."

In London, analysts said sterling had fallen less than might have been expected after the collapse of the Opec meeting on Monday, and described the setback to share prices as a temporary correction. They said investors were cashing in their profits as they approached the end of a three-week stock exchange accounting period on Thursday.

The FT Ordinary share index still stands 20 per cent higher than it did on January 1. The broader FT-SE 100 share index lost 30.1 yesterday to close at 1,633.8.

Oo the foreign exchange markets the pound closed in London at $1.4620, a loss of more than 2½ cents. The Bank of England's sterling index lost 0.5 during the day to close at 75.4.

The dollar, meanwhile, gained over 5 pfennigs against the D-Mark, closing at DM 2.3385. Against the yen it closed at Y180.20, a gain of over Y1¾.

In the oil market, prospects of a sharp reduction in the number of tankers carrying oil out of Libya, counterbalanced fears of an Opec free-for-all. Although contracts for West Texas crude oil fell by up to 75 cents on the New York Mercantile Exchange, trading conditions were described as calm and orderly.

The market in North Sea Brent crude showed little change from the previous day's prices, ranging from over $13 for promptly delivered barrels to less than $12 for shipments in July. Prices held above Monday's low-point, when BP sold a cargo of Brent for July delivery to Marubeni of Japan at $11.40 a barrel.

Lex, Page 20; Money markets, Page 33; London SE, Page 36

Saudis to maintain production level

BY RICHARD JOHNS IN GENEVA

SAUDI ARABIA will continue to produce oil at a rate of 4.35m barrels a day (b/d), the maximum conceded by other members of the Organisation of Petroleum Exporting Countries (Opec), for the indefinite future.

Sheikh Ahmed Zaki Yamani, the Saudi Oil Minister, made this clear before leaving a marathon meeting of Opec in Geneva which failed to agree any strategy for reducing output and boosting prices.

Opec will certainly continue serious talks, probably in Geneva, on methods of ensuring some measure of discipline calculated to boost market confidence in the organisation's ability to administer prices.

As senior delegates left Geneva yesterday, there were grave doubts that Opec could maintain prices above a level of $10 a barrel, not least because of the bitter war between Iran and Iraq, two member states, now well into its sixth year.

The breakdown of the talks centred on the war and two other issues. One related to the conflict was Iran's refusal to concede any increase in the quota allowed to Iraq under the quota-sharing agreement reached three years ago and revised in October 1984.

The second arose from the refusal of Saudi Arabia and its conservative allies in the Gulf to renounce the agreement which was finalised last December and sanctified in a communique by giving precedence to regaining market share whatever that meant to the oil revenue of more populous and poorer member states.

The Opec meeting was adjourned with the officially announced aim of

Continued on Page 20

Arithmetic of oil alters, Page 3; UK gas sell-off, Page 14

US details oil loans by banks

BY WILLIAM HALL IN NEW YORK

US ENERGY banks have lent more than $60bn to the 600 or more independent oil and gas producers which have been hit hard by the recent collapse in world oil prices, in the banks' single biggest exposure to the US oil end gas industry.

The Federal Deposit Insurance Corporation (FDIC), one of the three US bank regulators, yesterday disclosed for the first time the scale of the involvement of the US banking system in the troubled US energy industry. The FDIC identified 563 energy banks which have more than 25 per cent of their capital invested in loans to oil and gas companies, totalling more than $61bn.

However, some $57bn of the loans were held by 59 large regional and multinational banks across the US, each of which had assets of more than $1bn. The total loan amount did not include US bank exposure to US oil producers such as Mexico and Venezuela and did not include energy loans from banks which have invested less than 25 per cent of their capital in the energy industry.

The FDIC said 65 per cent of the oil and gas credits held by these large institutions were $20m or larger. The regulators last examined these loans in April last year and found that 17.5 per cent of the credits were criticised compared with only 5.4 per cent of all other industry credits.

The FDIC estimated that more than a quarter of the 563 energy banks were subject to more than the usual amount of supervision and said it expected the volume of criticised credits to rise sharply when the next energy loan review is completed soon.

The FDIC figures, which were released at a hearing of the Senate energy committee yesterday, come when many banks in the south-western states of the US face growing problems because of the impact of the collapse in oil prices on local energy businesses.

Mr Robert Shumway, head of banking supervision at the FDIC, said the overall impact of lower oil prices was resulting in high levels of non performing assets, above normal loan losses, reduced earnings and slowed asset growth. He said the bulk of the problems were being felt by banks in Arkansas, Louisiana, New Mexico, Oklahoma and Texas.

In related evidence an official of the US Comptroller at the Currency Office, which supervises national banks as opposed to state chartered banks, gave additional information on the quality of the loan portfolio of the 245 national banks which fall under the heading of energy banks. Most of the main banks in America are supervised by the Comptroller's Office.

At the end of last September these banks had nearly $40b in oil and gas loans on their books. Some $14.6b or 38.8 per cent was to inde-

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Austria: Survey .... Section III

Gordon Cramb reports on the FFr 20bn-a-year industry's new-found self-assuredness

Paris fashion wins national recognition

Part of the Thierry Mugler collection

HIGH-BOOTED and wide-shouldered, the figures patrol imposingly in the spotlight. Their kit of slate grey and verdigris, with flashes of Muscovite red, is completed with peaked cap and star on chest.

Paris, 10 days after the centre-right's return to power, has taken on a distinctly Soviet aspect. The new government of Mr Jacques Chirac may, however, be partially reassured by the news that the Russian invasion is so far confined to fashion week catwalks in the grounds of the Louvre.

Two of the country's leading *créateurs* of the post-Dior generation have chosen this theme for their shows. Thierry Mugler had his models stomping Red Guard-like through a Russian winter, while Jean-Paul Gaultier made prominent use of cyrillic lettering.

Serious political statements are clearly not to be expected from the twice-yearly offerings of the designer houses, and the Paris prêt-à-porter collections have never lacked theatricality. For the current season of shows which ends today, though, shrill pantomime is in many cases giving way to a calmer self-assuredness of an industry which no longer needs to assert its right to exist.

Some 40 years after the New Look, and with the French women's ready-to-wear industry now carrying a turnover tag put by some estimates at FFr 20bn (£1.9bn), this is a rather late maturity. But changes are here and there under way in the structure of the designers' often precarious finances, following a significant revaluation of its national status brought about during the just-ended tenure of Mr Jack Lang as Culture Minister.

> 'The main benefit we all got from this period is that we have come to be considered as a profitable and export-orientated industry. We are no longer considered futile. We are part of the image of our country and this is the first time we have had this image.'

Mr Lang won loyalties partly by appearing at the occasional official function in an unconventionally cut designer jacket, but Mr Francois Léotard, his similarly youthful successor, will have a hard task in matching the more concrete achievements of the Lang era. Notable among these is the Musée des Arts de la Mode, the fashion museum at the Louvre opened in January by President François Mitterrand.

This accorded the fashion industry the recognition previously reserved for "traditional" arts, and 200 years of history has been instantly reclaimed.

It is an industry which has long been undercapitalised, however, where emergent designers have had to rely on backers with varying degrees of patience. Even Dior has had financial difficulties and, despite the recent development of a *second marché* on the Paris bourse for smaller companies, flotations by design houses have been conspicuously absent.

Partly, this is because the creative talent often resides in one person, whose departure or demise would overnight turn the company into a virtual shell. Others argue that an average investor would not easily understand the cost basis of assembling a collection.

Fashion houses are nonetheless seeking other ways to secure their future in an increasingly competitive environment more than 70 have been presenting their wares in Paris to the buyers from international retail outlets.

The Thierry Mugler company, now in its tenth year, is one example. The designer himself and two partners are in the process of negotiating the repurchase of a 75 per cent stake held by its Italian licensee.

Its board is also set to approve the opening of a Mugler shop in London next year, in addition to those in Paris and Brussels and a planned Geneva outlet. A Mugler perfume is also in prospect to compete with existing designer label fragrances.

According to Mr Didier Grumbach, the Mugler president, the rapidly internationalising fashion market—particularly the breakthrough this decade into and from Japan—requires a centralised management approach at the same time as diversification both geographically and by product.

A dominance of the industry like that held for many years by Dior, Cardin and Yves Saint Laurent will not be repeated, he says. Mugler, with its 100 full-time employees, has been in profit for the last five years, but the number of new bidders for the buyers' eye grows each season.

Mr Grumbach is unhesitating in the recognition he accords to Mr Lang's efforts.

"The main benefit we all got from this period is that we have come to be considered as a profitable and export-oriented industry. We are no longer considered futile. We are part of the image of our country."

Mr Léotard, it appears, may need to do little more than tread water. "It is in nobody's interest to return to the past," says Mr Grumbach. "The work is done. I hope he will be supportive, but if he is not it wouldn't be a drama."

The collections for fashion week are, it should be remembered, for the winter of 1986-87. By that time, he garb which adorns the French body politic may be of an entirely different cut and hue.

W. German economy faces harder time

By Rupert Cornwell in Bonn

WEST GERMANY's present glistening economic performance is likely to lose some of its lustre from the end of this year onward, with an upturn in inflation and a decline in corporate profits, according to the respected World Economic Institute of Kiel.

This is the principal conclusion of a study carried out by the institute into the impact of the dramatic fall in oil prices—a major ingredient in the country's rosy economic performance of late, which provides Chancellor Helmut Kohl with his strongest card in the campaign for the federal election here scheduled for January 1987.

According to the study, growth of 3.5 per cent in 1986, fuelled by cheaper imports and rising consumer demand, could create 350,000 new jobs this year and generate a modest fall of around 150,000 in the total of unemployed, to some 2m by the end of 1986.

Inflation is likely to be below 1 per cent this year, the lowest level since 1954—a prediction supported by figures yesterday from North Rhine Westphalia showing that prices fell by 0.2 per cent in March.

But the Kiel group warns that the decline in oil and import prices will inevitably lose in impact as 1986 wears on.

Romanian economy troubled by winter energy cuts

BY LESLIE COLITT, RECENTLY IN BUCHAREST

THE PROGRESS of the Romanian economy towards the end of winter resembles that of Bucharest's overloaded buses a week after the last snowstorm.

Wheels spin furiously on the ice-covered streets as drivers keep accelerators pressed to the floorboards. The loss of energy is enormous but the Romanian-built vehicles inch forward.

The buses at least had the streets to themselves as the use of private cars and taxis was prohibited. Safety was given as the reason but saving fuel was at least as important.

Cuts in district heating and electricity for several hours in the morning and evening left families huddled indoors wearing heavy sweaters, jackets and overcoats and often their fur hats. Street lights were dim and ambulances were unable to cope with calls from pregnant women deprived of transport to hospitals.

Greatly reduced gas pressure made it nearly impossible to cook food which had been difficult enough to procure in the first place. The fuel-saving restrictions — in effect for the second successive winter — are expected to last until late spring.

Mr Ceausescu: "serious failings."

Eastern Europe's longest queues form each day outside Romania's butcher's shops where rationed meat is sold out shortly after delivery. Crowds also build up outside groceries when a truck arrives with a load of butter or cheese.

Food supplies have steadily worsened despite announcements that last year had provided the second bumper harvest in a row. The report appeared premature. Romania's leader, President Nicolae Ceausescu, recently spoke of "serious failings" in agriculture.

Sensitive to rumours within the country that much food is being exported Romanian officials cite statistics that only 11 per cent of exports consist of food and agricultural products. Western analysts however maintain that much of the meat which is sold in barter deals for oil does not appear in the annual trade statistics.

Severe energy cuts were imposed after a three-year drought virtually eliminated hydro-electric power—20 per cent of generating capacity. Officials say that normally there is enough water for hydro-electric power to cover peak loads.

Fuel problems have developed because scarce oil is used to generate at least 30 per cent of the nation's electric power. Replacing oil with domestic coal is proving difficult as output from strip lignite mining is growing only slowly and is frequently crippled in the winter.

Officials said the country's long-delayed first nuclear power station at Cernavoda will produce some power by next year. But the Canadians who are providing the reactors say a more realistic expectation would be the early 1990s.

Romanian officials point out that the country is being hard pressed by its Western creditors to stick to the repayments timetable established after Romania's debt was rescheduled in 1982 and 1983. This involves a further belt-tightening by the long-enduring population. At the same time, the leadership will accept no responsibility for the deteriorating economy and indeed denies it is anything but flourishing.

Romania has unquestionably come a long way from the agrarian country it was 40 years ago. Its pre-war reputation as the granary of Europe was obtained at the cost of grinding rural poverty.

Today, one of Europe's most ambitious housing programmes has provided flats for most Romanians. The country produces its own jet airliners and fighter aircraft, cars and trucks, machinetools and ships. But the cost of turning out such a wide range of industrial goods has been heavy.

Romania's expanding steel industry—one of the largest users of scarce energy—depends on imported iron ore and coking coal. Few engineering products are saleable in the West.

More than half Romania's exports last year to its leading Western trading partners, the US and West Germany, consisted of petroleum products, although oil production has stagnated in recent years at about 10.7m tonnes.

Romanian officials hope that the fall in world oil prices will enable the country to buy more oil in the West and from the Soviet Union to process in its refineries. At least one-third of the 35m tonne refining capacity has been idle for years because of the high price of imported crude.

Grandiose projects, such as the canal between the Danube River and the Black Sea and a canal to link Bucharest with the Danube are also draining resources from the economy.

Meanwhile, the president insists on eliminating external debt within three years. Last year he announced that Romania had repaid half its 1980 debt of $9.6bn and would reduce it by 30 per cent this year.

However, the country has also run into cash flow problems. The $150m loan which Bucharest was given by Western banks last year was on "very harsh terms," bankers admitted. Another loan for the same amount has been held up for months because Romania insists its economic performance justifies better terms.

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EUROPEAN NEWS

Italian protests set to force change in building laws

BY JAMES BUXTON IN ROME

THE ITALIAN Government is preparing to make substantial amendments to its new law on illegal construction in the face of continued civil disobedience in Sicily and other parts of southern Italy.

In some areas the disobedience has come close to a revolt against the central Government.

Despite news of Government intentions to soften the law, the protests continued yesterday with roads being blocked by mobs of demonstrators around Palermo, the Sicilian capital, and other parts of the island.

Roads were also blocked in Calabria and in Apulia, at the southern end of the Italian peninsula.

The protests, which have often been violent, are against a law which requires people who have carried out illegal construction between 1942 and 1983 to apply for an amnesty and pay a fine.

The fine varies with the scale of the offence and the size of the construction.

It is reckoned that the number of illegal constructions and alterations affected by the law runs into millions. Whole districts in Italy have been built without planning permission.

The Government, alarmed by the intensity of the Sicilian protest, is expected this week to approve a decree which could reduce by a third the fine for many of those who built illegally out of "necessity," rather than out of a desire to speculate.

The period for payment of the fine is likely to be extended, and the rule requiring constructions to be earthquake-resistant could be eased.

However, these concessions would fall well short of those demanded by the Sicilian protesters, who are backed by local political leaders.

The law, passed last year after a troubled parliamentary passage, and many changes, had two aims: to raise revenue for the Treasury and to provide retrospective sanctions for the illegal building.

The deadline for declarations under the new law is Monday. Only 150,000 applications had been received by the end of January – oo the most optimistic assessment, 10 per cent of what had been hoped for.

Several cities in Sicily, notably Agrigento, where protests have been among the most violent, have told the government in Rome there has been no illegal building oo the territory under their jurisdiction.

Agrigento is notorious throughout Italy for tha large and disorderly construction that has takeo place around the ancient Greek temple outside the city.

Max Wilkinson examines the inescapable arithmetic of supply and demand

Market will enforce oil production cuts

AFTER THE protracted failure of the Organisation of Petroleum Exporting Countries (Opec) to agree a share-out of productioo cuts, a round of cuts will soon have to be enforced by the market.

The arithmetic is ioescapable, as Sheikh Ahmed Zaki Yamani, the Saudi Oil Minister, darkly hinted when he said of the next few weeks that "everyone will suffer" as a result of the disunity at the nine-day meeting in Geoeva which broke up on Monday.

Most comment has focused on the effect on spot oil prices which eased sharply on both sides of the Atlantic. However, the fundamental fact about the oil market over coming months is that supply and demand must balance.

The International Energy Agency estimates that total demand for oil in the non-Communist world will drop by almost 3m barrels a day (b/d) to about 44.4mb/d as warmer weather arrives during the spring months.

Assuming that noo-Opec production is not cut back, this would leave only 16mb/d for the 13 Opec countries – soma 2mb/d less than their average output in the first three months of the year.

Even if oil prices were to fall well below $10 a barrel it is highly unlikely that oil demand would be stimulated by anything like enough to fill this gap.

Some extra oil might be burned in oil-fired power stations, which would become competitive with electricity from coal at an oil price of between $10 and $15 per barrel.

In Europe the largest potential switch from coal to oil would be in the UK, which could theoretically burn perhaps the equivalent of 200,000 to 300,000 additional barrels per day.

But this would only be economic if the Government were to sanctioo a savage extra programme of shutting down coal mines. Quite apart from the political difficulties, this would only make economic sense if the Government were convinced that oil prices would stay in the low teens for a long time.

Similar considerations would apply in West Germany. In the US the industrial market might switch from burning natural gas to oil, with a potential for consuming perhaps an extra 1mb/d to 1.5mb/d.

But gas producers, already under strong financial pressures, are unlikely to yield their markets without a struggle. Moreover, any large-scale switch from home produced gas to imported oil would put additional straio on the US trade deficit and increase the clamour for an oil import surcharge.

It is most unlikely, therefore, that oil producers will be saved in the short run by increases in demand. Similarly, the amount of production which would become uneconomic at $10 per barrel or less is quite small.

Even in the North Slope of Alaska where the cost of oil at the terminals is about $11 to $12 per barrel, the big oil companies would almost certainly continue to produce at a loss for some while at least.

This is partly because the cost of sbutting down production platforms would be very high partly because companies like BP would continue to earn substantial revenues from the oil pipeline eveo if they ceased to make money oo the oil itself, and partly because companies would be hoping for better days to come soon.

OPEC'S LOSS OF EARNINGS
in $bn

	1985 quota earnings	Earnings at $12 a barrel
Venezuela	11.3	6.8
Nigeria	11.7	6.05
Indonesia	8.5	4.45
Algeria	6.9	3.4
Libya	9.2	4.75
Kuwait	7.8	4.2
Saudi Arabia	37.3	20
Iraq	9.6	5.25
Iran	14.8	8.4
Others	13.5	7.35
Total Opec	130.6	70.65

Source: Petroleum Argus

In the North Sea one big company estimated prices would have to fall to $2 to $3 per barrel before the expense of shutting down platforms could be justified.

Most analysts expect that the main burden of production cuts will be taken by the large number of small stripper wells in the US, whose extraction costs range from around $18 per barrel to around $10 per barrel.

Sheikh Yamani suggested that some 1.8mb/d of this production might be sbut in, but other estimates have put the figure at about half this amount.

The extent of these cutbacks and the reductions in marginal output from the North Sea and elsewhere will depend very much on whether operators believe that Opec really is a spent force with the likelihood that oil prices will weaken further and stay depressed.

But even if operators take the most pessimistic view, the balance of supply and demand is unlikely to be restored until colder weather starts to increase oil demand next winter – and perhaps not even then.

This is because Opec countries, and indeed all oil producers, will be under enormous pressure to keep up production just to maintain cash flow and keep their budgets above water.

Last year, at an average price of $26.40 the Opec countries' export earnings from their self-imposed production quotas totalled about $130bn, according to the Petroleum Argus. Cheating by members who produced more than their quotas, probably increased this by about 22 per cent.

This year, at an average of $12 a barrel Opec earnings would be halved. At an average of $20 per barrel total earnings would be down to $100m on the legitimate quota.

The big worry for Saudi Arabia and its fellow Opec members must therefore be whether the aggressive push for increased market share since last summer may now have produced an irreversible slide in prices.

Saudi Arabia would almost certainly have liked prices to stabilise at around $16 to $18 per barrel. Crude oil sold oo the "netback" deals linked to the spot price of petroleum products are probably running at $3 to $4 per barrel above spot prices, according to the US consultant, Cambridge Energy Research Associates.

Since about 80 per cent of Gulf crude is now sold on netback deals, the North Sea Brent spot price of around $13 per barrel probably gives an unduly depressed picture of prevailing prices. Nevertheless, the Brent spot price and the $12 per barrel quoted for US crude on the New York Mercantile Exchange probably show the way forward. Big oil companies are already putting strong pressure on producers to ease netback terms.

It is therefore difficult to see why prices should not cootinue to slide substantially in the coming weeks or mooths. As the "pain threshold" increases, Opec and other oil producers will be under increasing pressure to return to the negotiating table, but it will become harder and harder for each producer to offer the needed cut.

The oil price has therefore become inherently unstable. Nobody knows the equilibrium level which would theoretically balance supply and demand, but in any case the major decisions of producers and of consuming countries are strongly political.

The only strong bet in the industry is that prices are unlikely to settle at a quiet level but will continue to swing, perhaps wildly, about an undefined political mean.

Banks likely to improve Polish debt offer

By Alexander Nicoll

POLAND'S leading Western bank creditors are likely to agree to reschedule more than three-quarters of the $800m which falls due to them this year, but have refused to advance new loans until the country receives an endorsement from the International Monetary Fund (IMF).

At a meeting due to be held in Warsaw on April 8, the banks are expected to improve on a previous offer, rejected by Poland, to reschedule 75 per cent of the 1986 repayments, which will fall due under a previous rescheduling accord signed in 1981.

Poland, facing a cash crunch because of poor economic performance last year, asked the banks for about $250m of new loans, almost the same amount that it repaid late last year as the first instalment of payments under the 1981 agreement.

The banks, although they view Poland favorably because of its adherence to the previous accord, say they cannot contemplate lending new money until tha country makes further progress in its application to join the IMF, expected to go through this year, and then plans IMF-endorsed economic adjustments.

Westarn governments, who are owed the bulk of Poland's $29bn debt, have agreed to reschednle $2.4bn of 1986 payments. Poland is also seeking fresh credit from them.

Shultz visits Athens to discuss terror and bases

BY ANDRIANA IERODIACONOU IN ATHENS

MR GEORGE SHULTZ, the US Secretary of State, arrived in Athens yesterday for two days of talks with the Greek Socialist Government which ara expected to touch on Libya's rola in international terrorism as wall as on the future of the four American military bases hare.

Mr Shultz is scheduled to meet today with the Greek Foreign Minister, Mr Karolos Papoulias, the architect of the Socialists' pro-Arab foreign policy which bas in the past inclnded close ties with Tripoli. Greece bas stepped up co-operation with tha US and other western countries such as tha UK against terrorism sinca a spata of hijackings in tha summer and autumn of 1985, two of them involving Athans.

David Barchard adds from Ankara: Mr Schultz wound up bis four-day visit to Turkey yesterday saying that "wa struggle and we argua but in tha end the results are okay."

However, Mr Shultz left Turkey before any major progress bad been made on a defence and economic co-operation agreement. He sidestappad questions about how far negotlations had proceeded and said marely that the US bellaved that the agreement was to tha advantage of both countries.

EEC starts assembling legal structure for franchising

BY PAUL CHEESERIGHT IN BRUSSELS

MR PETER SUTHERLAND, the European Community's commissioner for competition, yesterday put in place the first building blocks of a regulatory structure to fill the legal void in which the franchising industry has been working.

In a speech to the Intarnational Franchise Association and tha Europaan Franchisa Federation in Brussels, ha mada clear that franchising arrangements could conditionally and eventually be freed from the competition regulations.

There is a ganeral ban under the Treaty of Roma, setting np the Community, on price fixing, market sharing and company agreements which could distort competition.

Bnt there is no question of franchising suddenly being freed from the normal competition rules.

"Tha Commission must begin to develop its axperience in the franchising field by taking a number of individual decisions, before moving on to the preparation of a block exemption regulation," Mr Sutherland said.

The need for setting out what is legal in a franchising agreement and what is not became acute in January when the European Court of Justice handed down a judgment in a case involving Pronnptia of France and one of lts franchise holders in West Germany.

Generally this decision gave those entering into franchise agreements a great deal of freedom. "We applaud the decision," said Mr Philip Zeidman, general counsel to the International Franchise Association. "Bnt we are concerned because it leaves open qoestions which cannot be ignored."

The Court decided that whether franchise agreements were compatible with the common market depeoded on what was in them and on the ecconomic context. It said that "strictly necessary" provisions to keep know-how between franchisor and franchisee out of the hands of competitors were not a restriction on competition.

Nor were controls to maintain tha identity of a sales network. But provisions on market sharing would breach the competition rules.

For the indnstry, which accounts for some 10 per cent of Community retail trade and which even in 1983 had total retail sales of over Ecus 35.5bn (£22.72bn), this is all too vague. Industry federations have been talking among themselves and the Commission bas been thinking. For it is the Commission which is going to have to devise the formula for exempting franchisa agreements from the competition rules.

Mr Sutherland started from the point that exemptions could not contradict the Pronuptia judgment. He then went on to spell out that exemptions from the competition rules would:

- not permit resale price maintenance;
- permit a company granting a franchise th right to demand that the franchisee confine his operations to a particular shop;
- not allow prohibitions on franchisees buying and selling among aach other;
- work on the basis that the Commission would be notified of franchising agreements and they would be legal if the Commission did not object in a certain time.

Putting flesb on these thoughts will take about two years, not laast because franchising is a complicated industry.

Swedish growth slows

The Swedish economy grew by 2.3 per cent last year, but the rate of growth slowed in tha second half according to the Central Office of Statistics, Kevin Done writes from Stockholm. Gross Domestic Product increased by 2.8 per cent in the first six months compared with 2.0 per cent in the second half of the year.

Danish prices up

The Danish consumer price index increased by 2.1 per cent in February from February last year, according to the Bureau of Statistics, Hilary Barnes writes from Copenhagen. The February index was 147.4 compared with 147.5 in January, and since last June when the index was 147.0 prices have risen by only 0.3 per cent.

US-LIBYA CONFLICT

Gadaffi rises to Reagan's challenge

BY ROGER MATTHEWS, MIDDLE EAST EDITOR

ONE OF the most consistent themes of US policy in the Middle East during President Ronald Reagan's Administration has been the desire to clip the wings of Col Gadaffi's regime in Libya.

Since January 1981 the relationship has been punctuated by a welter of accusations and threats that have developed into direct military and economic confrontation.

Within a month of taking office, President Reagan's staff began planning Sixth Fleet naval manoeuvres in the region of the Gulf of Sirte, which Libya has claimed as part of its territory since 1973. The overt aim was, in the words of a senior Pentagon official, "to assert the principle of open seas." But, he added, "we would also like to tweak Gadaffi's nose."

The tweak was duly administered on August 19 soon after the manoeuvres had got under way. Two Libyan Sukhoi 22 fighter bombers, purchased from the Soviet Union, rose to meet US F-14 fighters attached to the aircraft carrier Nimitz.

According to the version of an American pilot, one of the Libyans then fired a missile. Within seconds both Libyan aircraft were hit by Sidewinder missiles launched from the US planes and the pilots ejected, to appear later that day on Libyan television.

The aerial clash provided banner headlines throughout the US, a surge of American patriotism, and an apparent indication from President Reagan that his designation of Col Gadaffi as International Public Enemy Number One was more than mere rhetoric.

But by Christmas there were snipers positioned on the roof of the White House and other exceptional security measures introduced to protect the President and other senior members of the Administration. They had been persuaded that Col Gadaffi was bringing the war to Washington and had already dispatched a series of assassination squads.

In response, a State Department official reported that there was a "powerful group within the Administration which seriously wants to take direct military action against Libya."

The mercurial leader of just 3m Libyans basked in the publicity, relishing the role thrust upon him of the main Arab bulwark against the "aggressive, imperialist, Zionist ambitions" of the US.

Those accusations sounded yet more pertinent to some Arab ears when within six months Israel launched its invasion of Lebanon.

The Israeli invasion was to herald one of the most dismal periods the US has suffered in the Middle East. The Administration allowed itself to be sucked into the Lebanese quagmire, over 250 marines died in Beirut and its efforts to stitch together a Lebanon-Israel agreement were sabotaged by Syria and its Arab allies.

Col Gadaffi never attempted to hide his delight at the US embarrassment and continued—through such episodes as involvement in Chad and assistance to radical Arab organisations — to stir up trouble wherever he found an opportunity.

American anger at Arab terrorism was again stirred last year when a TWA flight was hijacked to Beirut followed by the seizure of the Archile Lauro cruise liner and culminating in December with the brutal attacks at Rome and Vienna airports.

The US said it had clear evidence that Col Gadaffi's regime was implicated in the Rome and Vienna attacks and sought international co-operation for an economic boycott while also threatening direct military retaliation.

In the wake of unilateral US sanctions against Libya and the freezing of its assets in the US, the Sixth Fleet, now reinforced by additional vessels, was again pressed into action.

In the middle of last month a Pentagon spokesman reported that US Navy fighters had "intercepted" Libyan aircraft over the Mediterranean on more than a dozen occasions, although he declined to say whether the incidents had taken place over the Gulf of Sirte. The spokesmen added that the Libyan aircraft "gave no indication of hostile intent."

Last week it was announced that Col Gadaffi's "line of death" across the Gulf of Sirte would again be challenged. This time the US has drawn a response which Mr Larry Speakes, White House spokesman, said was "entirely unprovoked."

No Arab regime, however reliant on Washington, is likely to accept Mr Speakes's account.

A US jet fighter takes off from the deck of the USS Saratoga during exercises off the coast of Libyya

While they may detest the Gadaffi regime, their instinctive reaction will be to rally to the support of an Arab Government under external threat from Israel's principal supporter.

Dislike for Libyan leader likely to rally Congress

BY REGINALD DALE, US EDITOR IN WASHINGTON

THE WHITE HOUSE yesterday continued to insist that it had not meant to "provoke or humiliate" Col Muammer Gadaffi, the Libyan leader, in sending US forces across the "line of death" in the Libyan-claimed Gulf of Sirte. But there is little doubt that most people in the Administration are overjoyed by his military response.

Privately, US officials concede that the US naval and air manoeuvres were planned in the full expectation that Col Gadaffi would react by trying to attack the American forces.

President Ronald Reagan, as Commander in Chief, was reported yesterday to have given specific advance authority to the US forces to destroy the new base for Soviet-supplied SA-5 anti-aircraft missiles at Sirte, which has now come under attack twice by US missiles.

Mr Reagan in fact gave a clear signal of his intentions when he introduced US economic sanctions against Libya on January 7. "If these steps do not end Gadaffi's terrorism, I promise you that further steps will be taken," he said.

Since then it has become clear that the sanctions have not achieved their purpose. Washington officials acknowledge that the sanctions, which most US allies have declined to support, have proved less successful than hoped.

In addition, there is now less reason to hold back for fear of reprisals against Americans in Libya, a serious inhibiting factor in the past. Among Mr Reagan's January sanctions was a measure making their continued presence in Libya illegal under US law, and there are now believed to be only about 100 of the original 1,500 or so left in the country.

Plans for the latest exercise were apparently begun soon after the terrorist attacks on Rome and Vienna airports on December 27, in which the US detected Col Gadaffi's hand.

US concern was heightened by the hurried installation of the SA-5s, with a range of 150 miles, which could threaten US reconnaissance and communications aircraft, and even civilian airliners, over the Mediterranean.

The exercise, it seems clear, was designed to serve at least three possible purposes: to reassert the right of the US to operate in the Gulf of Sirte; to take out the SA-5 missile base if Col Gaddafi attacked; and to teach the Libyan leader a lesson.

Some US officials also say privately that they are hoping that a dazzling display of US firepower will help to rescue Mr Reagan's 1987 defence budget, currently in serious difficulty on Capitol Hill.

They argue that similar shows of force in the past have rallied public opinion behind the defence effort, as happened in 1981, when US F-14s shot down two Libyan fighters over the Gulf of Sirte.

But the parallel with 1981 is not really valid. That was right at the beginning of Mr Reagan's time in the White House, when tha country was generally worried about the decline in its military power.

The latest action will doubtless prove popular, but it is not likely to produce the wave of euphoria that erupted in 1981, when Americans suddenly discovered that their armed forces could finally do something right. Now the mood is different, and most people believe that the defence build-up has gone far enough.

Even so, there has been a general welcome on Capitol Hill for Mr Reagan's action, from both Republican and Democratic leaders. One Congressman has raised the question of whether Mr Reagan has fully complied with the 1973 War Powers Act, which limits Presidential powers to send American forces into hostilities.

Another has accused Mr Reagan of "taunting" Colonel Gadaffi. But by and large Col Gadaffi is so unpopular in the US that most members of Congress are likely to stand behind Mr Reagan, at least for the time being.

The Administration itself is also more united than it has been in past disputes over retaliating against terrorism.

Many Middle East experts in Washington have been much less approving. They have warned that the fighting could escalate, that the Soviet Union could be drawn into the confrontation and that Col Gadaffi could launch new terrorist acts in Europe, and even in the US itself. They fear that the net result will be to strengthen Col Gadaffi in the Arab world.

Firm rules lacking on territorial waters

BY A. H. HERMANN, LEGAL CORRESPONDENT

THE CONFLICT between the US and Libya is a forceful reminder of the uncertain state of the law of the sea.

Though lawyers' views will hardly be sought or considered at the present stage two questions come to *mind:* first, how good is Col Gadaffi's claim that the Gulf of Sirte is part of Libyan territorial waters, and second, what remedies in international law are open to a country which maintains that its territorial waters have been violated by foreign warships.

There is no firm rule about the limits of territorial waters — originally the length of a cannon shot, then three and *later 12 miles. The aim of both* the US and the Soviet Union at the third Law of the Sea Conference was to stem the tendency to broaden claims going beyond 12 miles.

The acceptance of the 200 miles limit for fishing purposes has removed the motivation for extending territorial sea limits. It is now stabilised between three and 12 miles, and tha US warships are, it appears, outside this limit.

However, a bay may be part, not only of territorial, but even of inland waters of tha coastal state. Articla 10 of the Territorial Sea Convention established a precise definition: an indentation of the coast line is a bay if its area is greater than the area of a semi-circle with a diameter equal to the line connecting the natural points of entry of the indentation. On first sight the Gulf of Sirte does not meet this condition.

An indentation not satisfying these geometric requirements could still be considered a "historical bay" but here the international law is less certain. According to a 1962 study by the UN Secretariat, a state may claim title to a bay on historical grounds if it can show that it has claimed the bay as inland waters and exercised its authority over it during a considerable period of time, and that other states did not protest against this claim during that time. Libya it seems, cannot claim that other states accepted its claim, not even tacitly.

The second question concerns the remedies against the abuse of territorial waters by foreign warships. The Draft Caracas Convention prohibits foreign naval exercises in territorial waters. In general, warships should comply with coastal rules, but these cannot be enforced against them (as they can be enforced against merchant ships). Tha injured state can only ask the warship to leave and pursue diplomatic remedies.

Kremlin limits confrontation to war of words with Washington

THE LATEST outbreak of hostilities between the US and Libye gives the Soviet Union a timely opportunity to demonstrate its closeness to Tripoli and other Arab allies and to mount fresh attacks on US foreign policy, writes our Moscow correspondent.

Past Soviet reaction to US-Libyan clashes since 1981 suggests, however, that the Kremlin is unwilling to court a direct confrontation with Washington through so unpredictable a figure as Col Muammer Gadaffi.

There is no Soviet Union obligation to intervene militarily to help Libya, since the two countries failed to agree on a treaty of friendship and co-operation when Col Gadaffi visited *Moscow last October* for the first time since 1981.

The Kremlin seems content rather to let Col Gadaffi irritate Washington, condemn any US reaction as evidence of US state terrorism and desire for world domination, and to supply Col Gadaffi with much of the military hardware ha needs to keep this policy alive.

Western analysts estimate that Moscow has supplied Libya with about $15bn worth of arms in the past 20 years.

That year, Soviet military advisers began to replace Egyptians in Tripoli. By 1985, according to one US study, there were about 3,500 Soviet and East bloc military advisers in Libya.

Egyptian reports say Soviet planes are regularly allowed to use Libyan bases when on Mediterranean reconnaissance missions, but the Soviet navy has still not received coveted port or refueling facilities from its North African ally.

A Similar lack of allied closeness is seen in political relations; where the two countries differ over Israel and the Iran-Iraq war.

These differences perhaps lay behind the failure to agree a friendship and co-operation treaty last autumn.

Col Gadaffi had to be content instead with a shipment of SA-5 missiles (the type used in Monday's attack) and unspecified measures of economic co-operation.

However, Moscow rallied swiftly to the Libyan cause when President Reagan accused Col Gadaffi of involvement in the Vienna and Rome airport terrorist attacks

Soviet officials and media are certain to make much of the latest armed clash, using it to cast a further propaganda cloud over the still unscheduled superpower summit.

One of the public wrangles that have seemed to prevent progress on agreeing a summit date in the past two weeks was Moscow's angry reaction last week to the intrusion of US ships into Black Sea waters claimed by the Soviet Union.

Parallels between the Black Sea incident and events in the Gulf of Sirte will provide Moscow with another opportunity to contrast its self-advertised restraint with US aggression.

OVERSEAS NEWS

Tokyo palace, embassy attacked

BY JUREK MARTIN IN TOKYO

JAPAN'S sense of security was given another nasty jolt yesterday afternoon when six home-made rocket bombs were fired, three apiece, at the Imperial Palace and tha US Embassy in the centre of Tokyo.

The weapons, set off by remote control or timing device from the boots of two parked cars, caused no damage and hurt no ona. But two crossed tha 50-yard-wide moat into the sprawling palace grounds and another landed on the roof of the embassy.

The immediate assumption was that the attacks were carried out by a radical Marxist group known as Chukaku-ha, or "middle core faction." The police speculated that the bombings were protests against both tha 60th anniversary next month of Emperor Hirohito's rula and the Tokyo economic summit early in May.

Tha rump of the once much larger *radical movement of the* 1960s, Chukaku-ha is best known for its intermittent assaults on Narita International Airport, about 70 km from Tokyo. In the 1970s, tha group formed an effective alliance with dispossessed farmers around Narita to delay the opening of the airport for six years. Even today, airport security is extremaly tight.

Chukaku-ha's most spectacular coup was in last November when, with assistance from a railwaymen's union splinter group, it sabotaged the Tokyo train system, bringing tha capital to a near-halt for a day. In 1984, it fire-bombed the Tokyo headquarters of the ruling Liberal Democratic Party.

For all its vaunted efficiency at surveillance, the Japanese police appear to have failed in recent years to crack any of Chukaku-ha's cells. Although the faction's acts of violence are mild by the international standards of terrorism and although the weaponry at its disposal seems mostly rudimentary, its ability to act with impunity and the possibility that it will make or acquire better hardware is causing concern.

This is likely to be heightened by the imminence of the summit, for which elaborate security precautions are already being laid, and by the fact that on this occasion the Imperial Palace was attacked.

The Emperor himself often entertains official visitors but otherwise conducts limited public engagements. However, other members of the Imperial Family, especially the Crown Prince and Princess, carry heavy official duties.

Deng says he may step down

By Robert Thomson in Peking

DENG XIAOPING, the Chinese leader, yesterday made his first public appearance for three months and took the opportunity to deny persistent rumours that he has been ill, though he admitted that he is seriously contemplating retirement.

In recent weeks, tha absence of the chain-smoking Deng, 81, has been accompanied by recurring speculation that he was either dead or seriously ill. He told visiting Danish Prime Minister Poul Schluter that he was aware of "rumours about my health in Hong Kong, resulting in a sharp decline in stock market quotations."

He stressed that "China's policies do not rely on one person. That's why I have deliberately made as few public appearances as possible. I have tried to disengage *myself from day-to-day* work. I'm now considering when to retire."

Previously, most diplomats expected Deng to step down as chairman of the Communist Party's Central Advisory Commission in 1987 at a National Party Congress, but the strength of his statement yesterday suggests that his retirement could be earlier.

However, diplomats also believe that, even if Deng retires from his official post, he will continue to exercise great influence.

He told *Mr Schluter* that "after my retirement, China's policies will continue. That should assuage international concern about whether China's policies will continue without Deng."

Deng said a stronger Europe, China and Third World generally would contribute to world peace and stressed that China would continue to pursue an "independent foreign policy."

Aquino spells out political reform

BY SAMUEL SENOREN IN MANILA

PHILIPPINE President Corazon Aquino yesterday set the tone on how she intends to run her debt-ridden country for the rest of 1986, and possibly through next year, by declaring an Interim Constitution that abolishes Parliament and gives her absolute power to make laws.

The Interim Constitution—which also scraps the post of Prime Minister, held by former Minister of Finance Cesar Virata—will remain in effect until a new one is drafted and approved by the people "in a genuine and honest plebiscite."

Mrs Aquino announced she would form within two months a commission of 30 to 50 "men and women of probity and patriotism" to write a new Constitution.

The Interim Constitution lifts most of the basic and non-controversial features of the Constitution which deposed President Ferdinand Marcos dictated in *1973*, such as the courts and local governments. The only major provisions that Mrs Aquino deleted were those *pertaining* to the *Parliament*, the Prime Minister and the emergency powers that Mr Marcos often threatened to use to impose one-man *rule*.

The provisional nature of Mrs Aquino's Government based on the Interim Constitution represents a major victory for reformists in the armed forces and conservative politicians led by Defence Minister Juan Ponce Enrile who had surprisingly opposed the declaration of a "revolutionary" government that would have discarded the Constitution.

Mrs Aquino hoped that the Constitutional Commission could complete its work in three months so "that our people will have a new permanent Constition and a duly elected Parliament within one year from this proclamation."

She justified the abolition of Parliament to cut out the "cancer in our political system" and return political power to its "proper limits."

Mrs Aquino accused Parliament of cheating the people's will, ramming through the false proclametion of Mr Marcos as President after the election last month.

The declaration of the provisional Government and the Interim Constitution has been welcomed by the business sector as a means to dismantle institutional and legal barriers blocking speedy national recovery.

● Peace talks between the Government and Communist guerrillas yesterday appeared closer to becoming reality after Mr Antonio Zumel, chairman of tha banned left-wing National Democratic Front (NDF), said negotiations were possible without preconditions, reports Reuter.

The Swiss Government yesterday said it was freezing all money belonging to deposed Philippine President Ferdinand Marcos at Swiss banks following attempts to withdraw funds on his behalf, Reuter reports from Berne. **A special Philippine Government envoy was expected in the Swiss city today to discuss possible legal ways for Manila to recover the money.**

● Mr Marcos and his wife, Imelda, have moved into a $1.5m Honolulu beach home

Australian coal accord

BY PATRICIA NEWBY IN MELBOURNE

AUSTRALIA'S coalmine owners and unions have reached a basis of agreement which should avert full-scale industrial action by the militant mining unions and end the strikes and bans which have plagued the industry for the past two months.

Mr Ralph Willis, Minister for Employment and Industrial Relations, intervened in the dispute when talks between the parties broke down and prolonged industrial strife loomed.

He took the unusual step of chairing two days of talks between the owners and tha unions, which were claiming a pay rise of between A$60 and A$70 a week.

No details of the agreement ware revealed, and it has yet to be ratified by the bulk of the owners and by the union rank and file.

The deal is believed to offer a pay rise and improvements in the workers' conditions, including extra sick leave.

If accepted by all parties, the deal will be put to the industry's arbitration body, the Coal Industry Tribunal, next month for formal approval.

S. Africa hit by more deaths and boycotts

By Jim Jones in Johannesburg

CONFRONTATION between black and white in South Africa escalated yesterday as police were fired on at the Crossroads squatter camp near Cape Town, large numbers of blacks stayed away from work in the Vaal triangle and a black boycott of white business began in Pretoria.

At Crossroads, Police were fired on as they were investigating the death of an *off-duty* white policeman who had been stoned and burned under a heap of garbage on the outskirts of the camp. *Two hours later,* another policeman, thought to have been black, was shot dead as he arrived to investigate a burning vehicle *just outside* Crossroads.

In another incident, police reported that an alleged ANC guerrilla *was shot dead on Monday* morning in the black township of Atteridgeville, near the East Rand town of Germiston. According to police, *the man* was shoot when he attacked police with a grenade as they approached a house in the township. They said that they *found* a cache of arms and ammunition inside the house.

Many black people remained at home yesterday in townships of the Vaal triangle after failing to heed a call to stay away from work on Monday. According to reports from the townships, people decided to stay at home after being threatened by bands of youths as they returned home from work on Monday evening. Bus services were withdrawn from the townships yesterday morning

Bands of youths enforced a boycott of white shops in Pretoria yesterday by stopping and searching cars and pedestrians inside the black townships near the capital city. The boycott was called to bring pressure on the Government to withdraw troops from the townships, to release political detainees, to lift bans on black organisations and to reduce rentals.

On Monday, police and troops initially prevented black traders in Atterridgeville from collecting food and other supplies from trucks outside the township and taking them into the township. The interdiction was eventually lifted, and black businessmen have threatened legal action if there is further interference with their business

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Brazil brightens bankers' gloom

BY PETER MONTAGNON IN SAN JOSE, COSTA RICA

FLUSHED WITH the successful launch last month of a aeries of major economic reforms Brazil is riding high at the Inter-American Development Bank annual meeting.

Yesterday its delegation, headed by Mr Joao Sayad, tha Planning Minister, took the unusual step of hiring San Jose's National Theatre—a diminutive version of the Paris Opera with a corrugated iron roof—to proclaim the country's economic success to the commercial bankers attending the meeting.

To the bankers, the good news is a marked relief from the gloom to which they have been subjected by developments in Mexico over the past few months. Brazil last year notched up a trade surplus of $12.5bn and an economic growth rate of 8 per cent.

Though growth will be lower this year, the robust self confidence of its delegation is having an almost palpable influence on the mood of the meeting.

Yet the contrast between the performance of Mexico and Brazil, Latin America's two largest debtors, has also made it unusually hard to draw any general conclusions over the direction the debt problem will take in 1986.

> Commercial banks have difficulty understanding "the very restrictive attitudes" of export credit agencies towards those third world debtors which have renegotiated debt plans, according to Mr Andre de Latre, managing director ofthe Institute of International Finance. In a letter on the progress of the debt crisis to World Bank and International Monetary Fund officials, he seemed to warn that commercial banks are now facing "powerful incentives" to increase "attractive opportunities."

Brazil's achievements bave come as a great comfort to its creditors because the country has achieved a hitherto elusiva goal, servicing foreign debt while still running a strong growth rate. The political kudos accruing to President Jose Sarney following the launch pf his "Plan Tropical" has rekindled ewareness among latin governments of the potential for "self-help" economic edjustment programmes of tha type also launched last year by Argentina.

In a quieter way, some other debtors are also basking in an easing of economic strains caused by developments in the world economy. Chile, wbose economic performance bas been deeply depressed by the need to service its $20bn foreign debt, has received an unexpected windfall on three counts this year.

Oil prices bave fallen, interest rates are down, and at long last tha copper price, so critical to its export performance, has begun to rise. Officials reckon this could boost its economic output by a full percentage point to some 4 per cent this year.

Similarly Costa Rica, wbose $4.5bn foreign debt makes it one of the most beavily borrowed countries in the world on e per capita basis, bas been buoyed by the rise in coffee prices as well as falling interest charges.

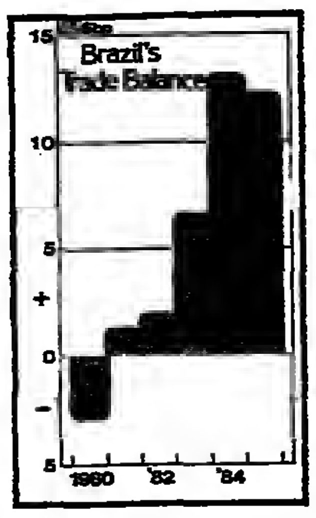
In a different camp are Mexico and other oil exporters like Venezuela, Ecuador and Peru. For them, the growth outlook is bleak, budgets are being squeezed by falling returns from lower oil prices and the burden of meeting interest payments on foreign debt is growing.

Argentina also faces a sharply higher balance of payments deficit because of falling grain prices. Though official figures are not available bankers reckon its deficit could more than doubla to about $2.5bn in 1986, generating a substantial foreign borrowing requirement of some $3bn.

This divergence in economic performance has reconfirmed tha view of commercial bank lenders that there is no point in attempting global solntions to the debt problem beyond those already contemplated in the US Baker plan. "You have to look at each country's needs separately," said a German banker.

Some Inter-American Bank officials argua privately that Brazil has now shown itself to be one of the few Latin American countries capable of growing its way ont of tha debt problem. Commercial bankers are more cautious over the "Plan Tropical," wbich they say could lead to strains in the domestic financial sector as lucrative opportunities for banks to purchase index-linked government securities dry up.

For the time being, bowever, Brazil has embarked on a path that is far removed from that of Mexico and many of its other fellow debtors. As long as it is a path that appears to be working, the chances of an effective debtors' cartel that could wring real and generalised concessions ont of the bankers seem to be even more remote than before.



Pressure mounts on Haiti regime

By Canute James in Kingston

PRESSURE is mounting on Haiti's military regime, six weeks after it took over the country following the flight of Mr Jean-Claude Duvalier, the former president.

Fifteen thousand people marched through the streets of Port au Prince, the capital, on Monday calling for the removal of the military regime of Gen Henri Namphy and its replacement by a civilian administration. Mobs of youths set fire to barricades at street intersections.

The march followed several days of simmering unrest in which seven people were killed after a clash between soldiers and bus drivers. The incidents reinforced Gen Namphy's growing unpopularity among Haitians who have consistently accused him of having too many neo-Duvalierists in the Government.

He has attempted to stem the tide of resentment by sacking ministers who were close to the Duvalier regime, but the resignation of Mr Gerard Gourgue, the civilian Justice Minister, a well-known anti-Duvalierist and buman rights advocate, was a bitter blow.

Long-standing differences between Mr Gourgue and Gen Namphy erupted when the Justice Minister attacked his colleagues for not taking action against former members of the disbanded Tontons Macoute, the special militia of the Duvalier family.

The departure of Mr Gourgue has damaged the credibility of the administration, whose ruling council is now reduced to three members. Diplomats in Port au Prince report continued anger over the departure from the island of Col Albert Pierre, the former police chief, and Mrs Rosalie "Madam Max" Adolphe, head of the Tontons Macoute, in the wake of the deposed leader.

Gen Namphy's statement that he would like to have all three back in the country to answer for their actions during the Duvalier era has provoked a cynical response.

The army chief has promised that his administration will not hold office indefinitely, but has not set a date for elections. Government officials have indicated, however, that the administration is planning a new constitution, to be followed by an election.

The pressure on Gen Namphy is apparently not coming only from members of the public. "There has been persistent talk in the past five days about the possibility of a coup by other army officers who are worried that Gen Namphy will not be able to keep the lid on things," said one diplomat.

The popularity of the army grew in the last days of the 28 year rule of the Duvalier dynasty, when commanders told soldiers not to shoot anti-government protestors except in self defence. It appears some officers are growing concerned at the erosion of their newfound popularity while Gen Namphy remains in office.

At the same time the Government has had a spate of labour problems, with Haitian factory workers demanding increases in their wages and intermittent strikes by bus and lorry drivers.

Honduras border crossing prompts $20m US aid

BY REGINALD DALE, US EDITOR IN WASHINGTON

PRESIDENT Ronald Reagan is to rush $20m (£13.5m) in emergency military aid to Honduras, in response to a large-scale cross-border incursion by Nicaraguan Sandinista forces, US officials said yesterday.

The White House said that tha Honduran Government had requested the aid on Monday after a Nicaraguan force, reported to number up to 1,500, crossed into Honduras in a bid to destroy base camps, hospitals and training centres of the anti-Sandinista Contra rebels.

Mr Reagan's action came as the Senate prepared to open debate on his request for $100m for the Contras, most of it in military aid which was rejected by the House last week. Tha Nicaraguan attack, denied by Managua but confirmed by Honduras yesterday, was expected to be used by the Administration as another reason for granting urgent military aid to the Contras.

Mr Reagan can use emergency procedures which require him only to notify Congress to provide the $20m in aid to Honduras. US officials said that tha Honduran request included air defence weapons, ammunition, spares and armaments for helicopters and training.

Mr Caspar Weinberger, the Defence Secretary, despatched General John Galvin, commander-in-chief of the US southern command, to Honduras to assess the situation and provide the Honduran Government with intelligence and edvice. Officials said that Gen Galvin had been instructed to ensure that members of the US armed forces stationed in Honduras were not involved in the conflict.

The Nicaraguan incursion was described in Washington as the largest of more than 100 Nicaraguan border crossings into Honduras since the Contras started using the country as a base of operations four years ago. The Sandinista forces were reported to have penetrated 10 to 15 miles into Honduras, to have been repulsed by the Contras and then trapped on a mountain inside Honduras on Monday.

The battle was reported to have continued throughout Monday, with the Sandinistas supporting their units in Honduras with heavy artillery and rocket fire and Soviet-built helicopter gunships.

Tim Coone adds from Managua: A US embassy spokesman in Tegucigalpa said yesterday that two battalions of Nicaraguan troops crossed the Honduran border at the weekend and attacked a Contra training camp at Las Vegas, in the department of El Paraiso.

The US is providing military transport helicopters to transport Honduran troops to the country's southern frontier with Nicaragua, in what was seen as a dangerous escalation of border tension.

Nicaragua denied that its forces had attacked Honduran territory, and the Honduran Government said that an incursion had occurred in the neighbouring department of Olancho.

A communique from the Honduran presidency said that military support from the US had already been obtained to transport Honduran troops to the zone.

In an apparent attempt to play down the situation, the communique added that the armed forces were handling the incident with "prudence and calm" and that there was "no need for unjustifiable alarm or worry."

Moscow 'continues to build military power' claims US

THE SOVIET UNION, while continuing to develop more lethal nuclear missiles, bas embarked on a massive programme to protect its land-based arsenal, the US Defence Department said yesterday. Moscow is also said to be ettempting to attain parity with the US in the development of cruise missiles, AP reports from Washington.

The Soviet Union bas a crude but workable laser weapon capable of blinding low-orbit reconnaissance satellites and it is continuing to pour the eqnivalent of billions of dollars into further modernisation of their conventional weapons, eccording to a new booklet, entitled Soviet Miliary Power, released by Mr Caspar Weinberger, the US Defence Secretary, yesterday.

The annual study, the fifth prepared by the Pentagon, was described as an unclassified version of defence intelligence agency reports showing what the US bas described as a relentless Soviet military buildup.

"Soviet (weapons) modernisation has not abated," Mr Weinbergerf said yesterday. "Based on current trends, our projections for tha 90s give us no reason to feel that we can rest in our effort to prevent the Soviets from achieving a very significant, exploitable military advantage.

"They bave more weepons of higber quality and higher capability."

The booklet is crammed with colour charts, pictures and graphs, including previously unreleased pictures of an intermediate-range, three-warbead SS-20 missile on its launcher and the SU-27 flanker, a fighter look-alike of the US F-15 that the Pentagon says became operational early this year.

The new study concluded the Soviet Union is developing two and possibly three new intercontinental ballistic missiles (ICBMs).

Argentines strike again over economic policy

BY JIMMY BURNS IN BUENOS AIRES

THOUSANDS of Argentine workers staged a mass rally yesterday in central Buenos Aires in support of a 10-hour general strike called by the major trade union organisation, the General Confederation of Labour (CGT) against the Government's IMF-backed economic policy.

The strike – the fifth to be organised since Mr Raul Alfonsin was sworn in as President in December, 1983 – began at noon local time with walkouts in factories in the capital's main industrial belt and in the traditionally militant northern city of Cordoba.

Skeleton transport services continued to ferry CGT supporters from the poor suburbs to the demonstration in open defiance of government claims that the strike cause was anti-democratic and damaging to the nation's economic development.

Officials claimed yesterday that the strike was costing the country some $150m in lost productivity alone.

Toronto boy wins record C$2.1m insurance award

BY BERNARD SIMON IN TORONTO

THE Canadian Medical profession's liability insurance fund has agreed to pay C$2.1m (£1m) to a severely brain-damaged Toronto boy in the largest settlement of a medical malpractice suit in Canada.

The settlement is the latest in a series of big damages awards which have recently drawn Canada into the growing uproar over spiralling liability insurance premiums in the US. The Ontario government appointed a task force earlier this year to examine liability insurance after complaints from municipalities, day care centres, sports teams and professional groups that liability policies, where obtainable, had become prohibitively expensive.

The most recent case involves a six-year-old boy who was left blind and severely brain-damaged at birth after a difficult forceps delivery. His family took legal action after the Ontario College of Physicians and Surgeons had rejected charges of professional misconduct against two doctors present at the birth.

If the boy dies suddenly, his family will receive more than C$3m.

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Bank Leumi (UK)	11½%
Bank Credit & Comm.	11½%
Bank of Ireland	11½%
Bank of Cyprus	11½%
Bank of India	11½%
Bank of Scotland	11½%
Banque Belge Ltd.	11½%
Barclays Bank	11½%
Beneficial Trust Ltd.	13½%
Brit. Bank of Mid. East	11½%
■ Brown Shipley	11½%
CL Bank Nederland	11½%
Canada Permanent	11½%
Cayzer Ltd.	11½%
Cedar Holdings	13 %
■ Charterhouse Japhet	11½%
Citibank NA	11½%
Citibank Savings	¶11.95%
City Merchants Bank	11½%
Clydesdale Bank	11½%
C. E. Coates & Co. Ltd.	12½%
Comm. Bk. N. East	11½%
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C. Hoare & Co.	11½%
Hongkong & Shanghai	11½%
Johnson Matthey Bkrs.	11½%
Knowsley & Co. Ltd.	12 %
Lloyds Bank	11½%
Edward Manson & Co.	12½%
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Mount Credit Corp Ltd.	11½%
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National Girobank	11½%
National Westminster	11½%
Northern Bank Ltd.	11½%
Norwich Gen. Trust	11½%
Peoples Trust	12½%
PK Finans. Intl. (UK)	13 %
Provincial Trust Ltd.	12½%
R. Raphael & Sons	11½%
Roxburgha Guarantee	13 %
Royal Bank of Scotland	11½%
Royal Trust Co. Canada	11½%
Standard Chartered	11½%
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¶ Mortgage base rate.
§ Demand dep. 7.68%. Mortgage 13%.

WORLD TRADE NEWS

UK groups set to help build UAE aluminium smelter

BY NICK GARNETT

A CONSORTIUM of British, US and West German companies has negotiated a $650m (£433m) deal for the construction of a second aluminium smelter in the United Arab Emirates.

The contract has yet to be signed but work is expected to begin on the smelter and associated facilities later this year, providing the local gas reserves needed to power the smelter are confirmed.

The consortium includes Hawker Siddeley Power Engineering and Balfour Beatty of the UK, Brown and Root of the US, and Ferrostaal of West Germany. The project, in the Emirate of Umm Al-Qaiwain involves the 120,000-tonne smelter, a 250 Mw power station, a gas production platform and a pipeline to bring the gas ashore. A desalination plant might also be included.

The client company, Umalco, has its shareholding split between the Government of Umm Al Qaiwain and International Engineering Consultants (IEC) representing the consortium.

The deal would allow the ruler of the emirate to increase his government's shareholding to 75 per cent within 12 years or by the time the bank loans for the project are paid off, whichever is sooner.

The consortium intends to take gas free of charge—the smelter power station requires 70m cubic feet a day—in return for providing the pipeline and platform free to the Emirate which would take liquids and excess gas from the project.

First studies of the offshore gasfield indicate that it will have the capacity to produce at least 100m cubic feet of gas a day.

The plant will be built with technology provided by the US company Alcoa. About 65 per cent of output is scheduled for China and the rest for a US customer. Negotiations are taking place with China for one of its state metal industries to operate the plant.

The smelter, expected to come on stream in 1989 represents another move away from the US as a smelting base for aluminium. US companies have been setting up smelting facilities in Brazil and Australia in particular.

The plant confirms the growing importance of the Arabian peninsula as an aluminium smelting area. The UAE's Dubai Aluminium smelter produces 150,000 tonnes a year, also mainly for export to China and the US.

Mitsubishi takes stake in Guinness Peat Aviation

BY OUR AEROSPACE CORRESPONDENT

THE Mitsubishi Corporation and Mitsubishi Trust and Banking Corporation of Japan will take a substantial financial stake in the Irish-based Guinness Peat Aviation Group, one of the world's major aircraft leasing companies.

GPA already has such major shareholders as Aer Lingus, Air Canada, Guinness Peat and General Electric Credit Corporation. Other new partners will include Long Term Credit Bank of Japan.

Reports from Japan suggest that Mitsubishi will participate in GPA because of the expected rapid growth of aircraft leasing due to the worldwide increasing demand for aircraft.

The new shareholdings will result in GPA's ownership being about one-third each in North America, Europe and Japan. A formal signing of the new arrangements is expected early in April.

Current estimates are that aircraft leasing as a business will expand through the rest of this century. The number of civil aircraft in service at present, about 6,400, is likely to increase to close to 8,500 by the end of the century, allowing for withdrawals due to age and replacements with modern aircraft, as well as traffic growth.

Both the Mitsubishi companies are said to place considerable importance on the fact that GPA is a leading company in the aircraft leasing business, and that in recent years its sales and profits have recorded sharp gains.

Egypt launches publicity drive to boost tourism

BY TONY WALKER IN CAIRO

EGYPT has launched a publicity drive in the US and Europe to counter the harmful effects on tourism caused by recent violence in the area, including the hijacking of an Egypt-Air Boeing in which 57 people died and the police riots in which two hotels were destroyed.

Tourism is assuming increasing importance in Egypt because of the squeeze on other sources of hard currency, such as Suez Canal dues.

Mr Fuad Sultan, Egypt's Minister of Tourism and Civil Aviation, estimated that the number of US people visiting Egypt, normally about 250,000 people a year, has been halved.

Cancellations of tours from the US in the busy Christmas-New Year period reached about 70 per cent. Mr Sultan said that in the immediate aftermath of the police riots, tourist arrivals fell by 40 per cent.

In the past week, tour operators have reported an increase in traffic but business is still well down on last year.

Mr Sultan said that revenue from tourism increased last year, in spite of predictions that Middle East-related violence would lead to a sharp reduction in the number of visitors.

However, the improvement was the result of a buoyant first nine months. Arrivals in 1985 showed a 2 per cent drop on the previous year, but the number of tourist nights increased by 5 per cent. Egypt received about 1.5m tourists last year, including some 450,000 from Arab states and about the same number from Europe.

Revenues from tourism through the official banking system increased in 1985 to $405m, against $324m the year before—a rise of more than 20 per cent—in spite of a sharp fall in the number of Americans visiting Egypt in late 1985.

It is estimated that less than half of tourism expenditures in Egypt, which has a lively currency black market, pass through official channels. Real annual earnings from tourism are probably between $900m and $1bn.

Mr Sultan said tourism from other areas, such as Europe and Arab countries, was holding up reasonably well. But he acknowledged it was too early to assess the full consequences of last month's rioting which hit the key tourist area

NEC to sue Texas Instruments in Japan

By Carla Rapoport in Tokyo

NEC, one of Japan's leading electronics companies, has launched an unprecedented counter-attack on Texas Instruments, the US electronics company that is sueing nine Japanese and South Korean companies for patent infringement.

NEC yesterday confirmed it had filed a patent infringement suit with the Tokyo District Court against Texas Instruments Japan, a subsidiary of TI of the US. The suit is seeking an injunction against manufacture and sales in Japan of 256K dynamic ram chips as well as other memory chips.

This is believed to be the first time that a major Japanese company has taken a US group to court for alleged patent infringement. It marks a sharp departure in corporate custom.

Japanese companies are extremely non-litigious, preferring to settle their differences through negotiation, as opposed to confrontation.

It is understood, however, that other major Japanese electronics companies are thinking of following NEC's lead, should the suit prove successful.

NEC officials yesterday said the move was made solely as a counter-attack and would not have been undertaken if TI had not launched its suit against the Japanese and South Korean companies last year. TI's suits came as it was negotiating renewal of licensing agreements which had expired about a year ago.

"This is a counter measure," said NEC yesterday. "We have now several basic patents on the D-ram chip and they are being used without licences, so we are sueing."

If the NEC suit is successful, it would be a severe blow to TI. Most of its 256K D-ram production is based in Japan where it produces between 3m to 4m chips a month.

The NEC suit is also believed to cover patents on 1 megabit and 4 megabit chips, the latter of which are under development.

Tokyo industrial centre predicted to open in 1987

By Our Tokyo Staff

The Japan-EEC Industrial Cooperation Centre should be ready to open its doors by the middle of next year, EEC officials said in Tokyo yesterday.

The centre will be aimed at promoting the transfer of Japanese technology to EEC countries and increasing the amount of direct European investment in Japan.

Mr Fernand Braun, EEC Director-General for Internal Market and Industrial Affairs, said after talks with Japanese officials yesterday that after a trial period of operation, the centre would offer training courses for Japanese and European businessmen, as well as a comprehensive data bank on investment conditions, services and opportunities in Japan and Europe.

Mr Braun said the centre, which will be based in Tokyo, should eventually be self-financing through the sale of its services to European and Japanese businesses.

"This centre is not supposed to serve the bureaucracy, its aim is to serve industrialists and it is their needs we must keep in mind," said Mr Braun.

Initially, he said, the Japanese were considering financing the project. Ideally, Brussels should contribute to initial costs, but Mr Braun was unsure about whether such funds would be approved.

OIL PRICE FALL FORCES RETHINK

Brazil reviews countertrade policy

BY ROBERT GRAHAM IN RIO DE JANEIRO

BRAZIL is having to review and reduce countertrade deals arranged for this year as a result of the fall in the price of oil.

Brazil buys the bulk of its 350,000 barrels a day crude needs through countertrade arrangements set up either by Interbras, the trading subsidiary of the state-run oil company Petrobras, or through leading local trading houses like Cotia.

According to Mr Helio Beltrao, president of Petrobras, Brazil's oil import bill this year is projected to drop from $5.4bn to $4.2bn on current prices.

While the countertrade arrangements allow for crude price flexibility, the present fall is so sharp as to force a review, and, Mr Beltrao says, there will be a consequent drop in some Brazilian exports.

Mr Beltrao says Brazil is paying an average of $16 per barrel free on board for imported crude. Last year the average price was around $28 per barrel.

Mr Beltrao: strong defender of countertrade

In spite of these problems for Brazil's countertrade, Mr Beltrao strongly defends these arrangements. Such trade, he claims, has permitted Brazilian products to break into markets traditionally occupied by industrialised nations.

Brazil's principal oil suppliers are China, Iraq, Nigeria and Saudi Arabia with lesser quantities from Angola and Algeria.

The largest fixed crude purchase is with Iraq for 100,000 b/d with an additional contract for 60,000 b/d covered exclusively by the sale of Brazilian goods.

According to Mr Beltrao, countertrade coverage of crude purchases from Iraq dropped last year from 70 per cent to around 50 per cent.

The mainstay of this trade remains sales of Brazilian military equipment, such as armoured personnel carriers, rocket launchers and the Tucano trainer aircraft.

In the case of China where Brazil buys 50,000 b/d the trade is entirely covered by the Chinese purchase of iron ore and aluminium.

Countertrade arrangements have also traditionally covered all purchases of Nigerian crude, with Brazil selling a wide range of products from Volkswagen cars to raw materials.

Brazil has two Nigerian purchase contracts for 10,000 b/d and 50,000 b/d. The latter is already complicated by Petrobras having lost to France's Total, a 40,000 b/d annual refining contract when it came up for renewal earlier this year.

Total is reportedly in difficulties in fulfilling the contract and has informally approached Petrobras to step in.

Brazil last year sold $1.8bn worth of by-products, according to Mr Beltrao, but this year tougher competition and lower prices are expected to cut these sales to $1.3bn.

Saab takes prop-fan stake

BY MICHAEL DONNE AND DAVID BROWN

BOEING yesterday brought Saab-Scania of Sweden into its team of companies working with it on a risk-sharing basis in developing the new 7J7 prop-fan airliner for service in 1992.

A memorandum of understanding was signed in Stockholm between the two companies. This follows a similar deal signed in London on Monday between Boeing Commercial Airplane Company and Short Brothers of Belfast.

Recently, the Japanese aerospace industry, through the Japan Aircraft Development Company, agreed to take a 25 per cent risk-sharing stake in the 7J7 programme.

Saab expects to employ 300 to 600 people to build airframe parts for the 7J7, starting in early 1990. Mr Georg Karnsund, managing director, said the agreement was another step in the group's strategy to reduce dependence on domestic military aircraft contracts.

The extent of the Saab-Scania agreement was not revealed, but it is not likely to exceed 5 per cent, the amount involved in the Boeing deal with Short Brothers.

Boeing is also discussing partnerships with other companies in Australia, Canada and West Europe, but it will retain not less than 51 per cent of the $3bn airframe development programme.

Together with engine development costs, the overall cost of the 7J7 could reach $5bn.

Saab-Scania, like Short Brothers, will put engineers into Boeing's Renton, Seattle, factory to work alongside Boeing's engineers in developing the 7J7.

The agreement is believed to include a clause that will prevent the Swedish company from disclosing details of its work with Boeing to the latter's rival, McDonnell Douglas.

Saab-Scania has an agreement with McDonnell Douglas to help in the development of that company's MD-91X.

McDonnell Douglas is also seeking additional partners on its MD-91X. It has signed agreements with Aeritalia of Italy and the Shanghai Aviation Industrial Corporation of China.

On engine development, General Electric of the US is working with Snecma of France, while Pratt & Whitney of the US has linked with Allison Division of General Motors.

Both groups are seeking additional partners. So far, Rolls-Royce is also working on prop-fans but has not so far signed specific agreements with other companies.

Textile wages 'low' in Portugal

By Anthony Moreton

WAGE RATES for textile workers in Portugal, a member of the EEC since January 1, are lower than those in 13 Third World countries.

This emerges from the winter 1985-86 survey of labour costs in 51 countries conducted by Werner International, the New York-based international management consultant.

Average pay in Portugal is $1.27 (85p) an hour, compared with $1.57 in South Korea, $1.81 in Hong Kong and $3.41 in Syria.

The dearest place in the world to produce yarns and fabrics is Norway, where hourly rates average $11.06. Switzerland, Belgium and Denmark follow closely behind.

In the US, the average rate is $8.66 an hour, only a little ahead of Japan's $8.20. In the UK the rate is $5.90.

US claims growth in imports from Hong Kong

By David Dodwell in Hong Kong

THE psychological warfare being waged by the US against leading Asian exporters over its bilateral trade deficits across the region was reflected yesterday when the US released trade statistics suggesting Hong Kong's exports to the US grew in 1985. Hong Kong has claimed that its exports fell.

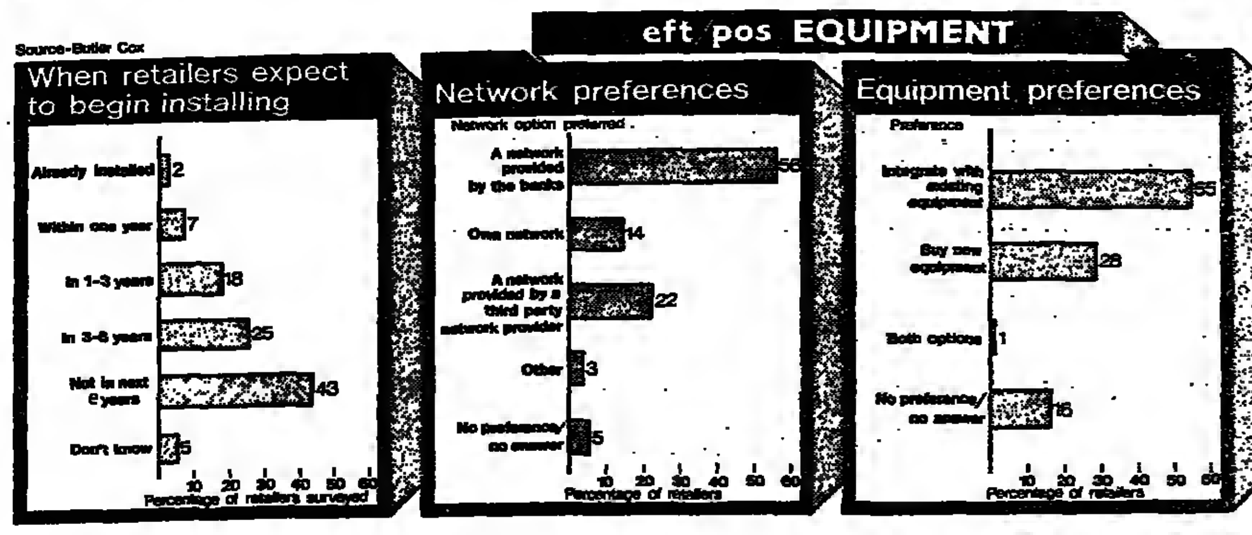
According to US government statistics, Hong Kong's exports to the US edged ahead by 1 per cent in 1985, from $8.9bn (£5.9bn) to $9bn. Five weeks ago the Hong Kong government said exports fell by 6 per cent to $7.4bn.

The difference, unexplained by either government, emerges as the US Administration prepares for a clash with leading textile suppliers over negotiations of a new Multi-Fibre Arrangement in Geneva in July. Textiles and garments account for over 40 per cent of Hong Kong's exports to the US.

President Ronald Reagan, under extreme pressure from protectionist lobbies in the US, is keen to demonstrate the headway made by leading exporters in selling to the US.

By contrast, the Hong Kong administration has complained about harrassment of its export trade by the US over the past year, with quota restraints encroaching continuously on new products, with unilaterally-imposed country of origin legislation forcing expensive retooling in the knitwear industry, and with calls to freeze exports at 1985 levels.

Unlike the contentious Hong Kong export figures, the US agrees with the Hong Kong Government about a 9 per cent fall in US sales to the British territory over the year. These fell from $3bn in 1984 to $2.8bn last year, leaving Hong Kong with a substantial surplus in its trade with the US.



DARTS terminal at the Miss Selfridge store at Brent Cross Shopping Centre

End to paper chase for British shoppers

Alan Cane on why the quick introduction of a nationwide cashless shopping network has become a priority

BRITAIN'S clearing banks are in the final stages of approving a multi-million pound project which should establish nationwide shopping without cash or cheques in the UK within three years.

Plastic cards, either credit or debit, will take the place of traditional means of payment; powerful automatic devices on retailers' countertops will capture trading details and send them electronically to new, purpose-built processing centres where computers will replace conventional, paper-based clearing methods. Funds will move virtually instantaneously from a customer's bank account to that of the retailer's.

Plans to establish such a revolutionary system for electronic funds transfer at the point of sale—eft/pos is the ugly acronym—have been under consideration for at least a decade in the UK, but have been hindered by a *powerful* combination of commercial, political and technical objections.

Just over a year ago, the banks, with the *encouragement* of the Retail Consortium, decided they could wait no longer and announced they would work towards a nationwide eft/pos system.

Since then, the development organisation they established has been wrestling with the problems involved in creating a novel payments service which will profoundly influence British society.

The worst of these problems *seem now* to have been overcome, and the banks' plan to turn Britain into a "cashless" society is going ahead.

Mr Dougald MacCallum, chief executive of EFT-POS, the development organisation set up by the London and Scottish clearing banks to design and implement the system, is confident that prototypes will be running in three towns by Spring, 1988—Southampton, the site of an earlier but abortive eft/pos plan is a *certainty* and towns of a similar size are now being sought in the Midlands and Scotland.

The three prototypes eft/pos systems will mean eventually the installation of some 30,000 computer terminals on retailers' countertops—about a tenth the number needed to complete a nationwide system.

This good progress cannot hide the fact that for many retailers and credit card companies, the move to cashless shopping now cannot come quickly enough. Every day that passes, they believe, puts them at a potentially greater trading disadvantage to more aggressive competitors who, they fear, could steal their customers by offering cheaper, better services through new technology.

They are pressing ahead with schemes of their own which, many are worried, could scupper the national system altogether.

Over the past year, the national scheme has nevertheless made solid advances:

● EFT-POS has produced a "business service specification," a detailed blueprint of what the system should do and how it should do it, and it is this which is now awaiting the banks' final approval.

● EFT-POS will become the clearing company for all electronic transactions, one of the first clearing companies to be established under the terms of the 1984 Child committee which *reviewed the structure of payment clearing services in the* UK. Its recommendations opened the clearing door to any financial institution meeting "open and explicit *criteria*" of financial probity and business volume.

The clearing centre, where large computers will be used to switch payments messages between shops, their bank accounts and the bank accounts of their customers, is likely to be in Woking.

A site has already been chosen. IBM is expected to provide the hardware. The computer power required is going to be substantial.

Assuming only 100 transactions a day for each of the 300,000 terminals nationwide, a system capable of handling reliably and at low cost 30m *transactions daily* or *almost* 11bn annually, will have to be created. It will mean several clearing computer centres, linked through PacketSwitch *Stream*, British Telecom's high speed service for messages created by computer systems.

● Preliminary specifications for a range of standard countertop terminals to be used for eft/pos have been drawn up and will be released to suppliers in the next few weeks.

The eft/pos project is the most ambitious, complicated and risky technological venture ever undertaken by the clearing banks in one fell swoop. Costs to be shared among the banks involved could amount to as much as £500m for a nationwide initiative. There is little prospect of a fast return on investment.

"All the evidence is that there will be no quick pay back for the banks," Mr Bert Morris, director *of* management services for National Westminster Bank says. He maintains, however, that NatWest, in common with the other clearing banks and the credit card companies, is totally committed to a national eft/pos system because of the potential advantages.

"These include a significant reduction in the costs of handling cheques and paper vouchers a defence against cheque and credit card fraud and a platform from which to launch new and competitive services to business and personal customers.

Mr Harley Atkinson, EFT-POS development manager, argues that due attention has been paid to the risks involved: "The national eft/pos service will ultimately be very large," he said. "We are adopting a design approach to cope with this."

"The system will be introduced in a step-by-step manner starting with the three limited pilot system: in this way the financial and technological risk can be minimised at every stage in the build-up to full-scale national eft/pos."

But with so much at stake, it *is hardly surprising that the* history of eft/pos in Britain has been littered with false starts, wrong turnings and fierce internecine warefare.

There is a nervous scepticism among bankers, credit card companies and retailers alike, about the ability of EFT-POS to establish a satisfactory system within a reasonable timescale.

They know that EFT-POS has to complete at least 17 separate and major projects before 1988 if it is to meet the planned schedule. Which is why some are putting alternative plans into effect with an alacrity which is worrying both their banking colleagues and their retailer customers.

Their anxieties are focused on Barclays, Britain's biggest bank and Barclaycard, its credit card company, part of the world-wide Visa organisation.

Yesterday's announcement by Barclaycard, that its planned experiment involving 1,000 terminals in a North London shopping area is to be expanded to 5,000 terminals in co-operation with the Joint Credit Card Company which runs the Access *operation on* behalf of National Westminster, Midland and Lloyds, and that the two plan to establish a new company to co-ordinate their eft/pos activities, *will* have done nothing to quiet their fears.

However, it must be strongly emphasised that Barclays and Barclaycard are in word and deed completely behind national eft/pos. Barclays is putting up some 23 per cent of the cost of the scheme; it has promised that if the terminals Barclaycard is installing prove to be *incompatible* with those of national eft/pos, it will abandon them at the appropriate time.

This week, Mr Pater Ellwood, chief executive of Barclaycard said: "We are not here to Exocet the national scheme."

Nevertheless, the fear is that *commercial* pressures may force Barclays and Barclaycard to develop its own system in such a way as to maka the national scheme seem less attractive to its prospective customers—the retailers and the public.

Barclays acknowledges that fear. Put bluntly, it supports national eft/pos all the way, but refuses to be caught in the market with its trousers down.

What Barclays fears is a threat to its pre-eminent position in UK banking. Barclaycard, in turn, fears a pre-emptive strike from another "merchant acquirer," an organisation—like Barclaycard itself—able to *interpose itself* between the card issuing company (which in Barclays case is Visa) and the retailer.

If such an organisation could offer retailers, through electronic technology, a better deal in the way of convenience and a lower merchant service charge—say half a per cent off—it would be in a powerful position to siphon off a good proportion of Barclaycard's retailer base.

The obvious threat is one or more of the aggressive US financial institutions. Citibank, for example—which has already applied to join the UK clearing banks committee—*is* perhaps the most adventurous user of new technology in the banking world and is a merchant acquirer for both Visa and Mastercard in the US.

Over the past year or so, two significant changes in attitude to eft/pos give credence to Barclays' anxieties.

● Retailers, who traditionally have grudgingly accepted that eft/pos might be a good thing if somebody else pays for it, are *now* positively clamouring for an electronic end to their paperwork.

And through the use of automated cash dispensers, automated teller machines and the publicity given to home banking, people are much more willing to accept electronic methods of payment.

● A more realistic attitude to eft/pos has been adopted by the banks.

At one time the more futuristic aspects of the system were much in vogue: the emphasis was on handling debit cards, which would trigger the *immediate* movement of funds from a customer's account to the retailers.

Now bankers are paying better attention to security. They worry about what happens if the system fails or is broken into. And they are acutely conscious that the growth potential in their retail business lies in selling credit.

Barclays has always in private argued for a gradual approach to full-blooded eft/pos. *Its Brent Cross experiment* exemplifies that approach, aiming to check electronically only that a credit card is valid, thus cutting down fraud, while retaining all the transaction details in the memory of the terminal for transmission to the clearing computer centre after *working hours*.

Customers will still have to sign for their goods rather than use a personal identity number or PIN: "People forget their PINS," Peter Ellwood argues.

So while EFT-POS pushes on with its high cost, high risk venture, the credit card companies are quietly establishing a substantial network which is not true eft/pos but which offers a more gradual, less risky approach to cashless shopping.

The retailers are adamant they want only one system: "We do not want to see the credit card companies establishing anything at the expense of the national system," says Mr Michael Wilsey of the Retail Consortium.

Others see virtue in a parallel approach, however. If the national scheme was delayed or fell seriously foul of any of the many technical, legal and commercial problems which remain, cashless shopping in Britain could still develop through the credit card companies scheme.

But it could put more power in their hands than many would like to see. Even Mr Ellwood of Barclaycard says: "No one company can totally dominate the electronic money transmission scene in the UK."

BANKS CALL TUNE ON DESIGN AND MANAGEMENT OF SYSTEM

***THE national eft/pos system* now taking shape represents a victory for the banks over IBM and British Telecom, which had expected to be able to control the design and management of the network.**

The two electronic giants remain favoured suppliers for the network and supporting computers which will link all the retailers' terminals to the computer centres, but on the banks' terms rather than their own.

Plans for a massive network of IBM minicomputers distributed around the country, for example, have been abandoned.

The most likely structure is a series of medium-sized computer centres around the country, each able to process eft/pos transactions from the conurbations in its immediate vicinity.

Retailer terminals are likely to be sophisticated devices able to work either on-line, that is connected to the computer centre, or off-line where the information is stored in the terminal memory for transmission to the computer centre at a later date.

The banks' view is that there must be a limit to the value of transaction complied on-line. Telephone line charges are high enough to make a nonsense of using the service for every purchase.

So it is likely that there will be "floor limit"—perhaps £20 or so—below which the transaction will be *handled entirely off-line.*

Whether the floor limit will be set by the banks or by the retailers has yet to be decided.

Each terminal will have to be "sponsored" by a bank which is a member of the clearing company. It will then accept responsibility for *transactions made through* that terminal.

There are worries about the security of the transmission lines, so all message traffic will be encrypted—disguised by secret computer codes. A more serious concern is the possibility of counterfeit terminals; each terminal will have to be able to identify itself to the computer centre when it "calls in".

***Plans* are that the system should be able to accept all recognised credit and debit cards, although some of the banks are wary of allowing the building societies—now *well advanced with their own* electronic transmission networks—*to* share the network.**

A family of eft/pos terminals is envisaged to accommodate retailers who have already installed electronic point of sale equipment. Some will offer little more *than the basic* eft/pos functions and will add-on to existing equipment. Manufacturers for these terminals could include IBM, ICL, NCR, Texas Instruments, National Semiconductor and Hugins. The cost to the retailer could be only a few hundred pounds per terminal.

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United Biscuits' shareholders have, over the last 5 years, seen their dividends grow by 15.2% p.a.	Hanson Trust shareholders have, over the last 5 years, seen their dividends grow by 28.7% p.a.

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THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

York International

A breath of fresh air

Andrew Baxter explains the split from its parent of the US air conditioning group

ONE OF the world's oldest refrigeration and air conditioning businesses is embarking on a new phase of its 101-year history under the leadership of a mercurial "corporate turnround" expert who started his first business at the tender age of 14.

Shareholders in Borg-Warner, the US vehicle parts, chemicals and plastics group, will in the next few days be receiving 8.7m shares in York International, a new company emerging from the spin-off of Borg's troubled air conditioning and refrigeration business.

This will put the final touches on a deal which creates the world's largest independent company in a highly competitive market sector. York, which is to be quoted on the New York Stock Exchange, employs 6,000 and had revenues last year of $637m. It is being given away to Borg shareholders in the belief that it can function better as an independent company than as part of a conglomerate.

Upheaval

The spin-off is the latest example of a process that has become popular in the US as industry restructures, but is relatively rare in Europe. An advantage of such an arrangement in the US is that it is tax-free for the parent company and its shareholders.

However, the York deal is unusual in that it includes the installation, as chairman and chief executive, of an experienced company doctor, Stanley Hiller. That York should now feel the need to turn to Hiller, a 61-year-old Californian who sees himself as a practitioner of corporate R and R — repair and rebuild — indicates how Borg found itself unable to manage its offshoot effectively as York's markets underwent a radical upheaval.

York, founded in 1874, produced its first refrigeration machine in 1885, spreading later into air conditioning, which shares much of the basic technology. By 1956, when Borg bought York as an attempt to reduce its dependence on the motor industry, York was already a household name in the many industries it served.

By 1985 the company was involved in everything from energy management systems for large buildings such as the World Trade Centre in New York to air conditioning equipment for submarines and refrigeration units for the food processing industry.

The early years of Borg's tenure coincided with heavy workloads on big buildings in the US and overseas, which is where "the real money" was, according to Robert Vile, an analyst with the Pennsylvania-based merchant bank Widmann, Blee. But declining oil revenues in the Middle East and reduced investment by the US energy and chemical industries had an adverse impact in the 1980s.

Keeping a firm grip on all York's products, markets and wide range of competitors became increasingly difficult for Borg, given the company's many other interests. "We tried to do too much. We never controlled any single part of it," says Borg now.

This might not have mattered too much if York had been producing big profits. But in the 1980s, the York business being spun off (see illustration) plunged from net earnings of $20m in 1981 to losses of $6.3m in 1983 and $1.2m last year.

It was in early 1985 that Hiller came into the picture, after a business career that began in the unlikely setting of a barn behind his Oakland home. A penchant for tinkering with toy cars led him to begin mass production there of miniature racing cars or "spin-dizzies," and by 17 he was running a business with 20 employees and annual sales of $100,000.

Then he sold out, and at the age of 18 left college early to build a pioneering type of helicopter with two blades rotating in opposite directions for extra stability. Hiller Aircraft went on to become one of the world's largest helicopter makers before Hiller sold it to Fairchild in 1964.

Other miscellaneous ventures followed, including an attempt to take over Lockheed Aircraft, until in 1971 Hiller returned to the limelight in the new role of company doctor. He reasoned that after solving problems in his own business he could do the same elsewhere.

York's present position is tailor-made for the Hiller treatment. Since 1972, when he took over G. Murphy Industries and revived its Reed Tool oil drilling bit company—in time for the 1974 drilling boom—Hiller has been taking over troubled companies and nursing them back to health, focusing particularly on older businesses whose markets have changed.

Hiller's approach is to move himself and members of his team into a company's headquarters, typically staying two to four years before "passing the baton" to the company's own executives. The starting point is to identify the company's strengths—Hiller says that businesses he takes on are normally not in as bad a shape as people believe.

At Murphy, for example, Reed Tool was being "crushed under a conglomeration of unrelated entities" including everything from explosives to artificial shrubs.

Then that part of the business worth saving is revived, with a permutation of changes in management or labour practices, cost-cutting or a redefined marketing strategy. In Reed's case the focus was a long-term premium-product strategy, while at Bekins, a California-based moving and storage concern, Hiller instituted a management shake-up, brought in incentive payments, and consolidated facilities.

Hiller says that York is in a "unique situation, and—you would have to say honestly — a difficult one." But along with Borg and York's line managers, he believes that creating a new company in a spin-off from the old parent is "the most efficient way you can go about R & R."

Morale

In the first place there are immediate benefits from bringing top decision-making back to Pennsylvania from Chicago. Hiller has great respect for Borg-Warner, but says that when York's markets changed, the ability to make crucial decisions promptly was not there.

Secondly, the spin-off, rather than a piecemeal sale, preserves York's integrated structure, broadly divided into two divisions covering very large systems and smaller products.

Finally, by creating a new company from a spin-off, the Hiller team is replacing only the corporate functions carried out by Borg, and thus is giving a fillip to line management's morale in an inevitably worrying period. The creation, meanwhile, of a new board from scratch allows the Hiller team to be selective as it matches outside board members' skills to internal needs.

The York board, which has already had its first meeting, includes James Beré and James Gavin, Borg's chairman and vice-chairman respectively. They have been picked, says Hiller, for what they can offer York rather than as representatives of Borg. Another board member is S. Donley Ritchey, chairman of California retailer Lucky Stores and chosen for his marketing savvy.

Hiller accepts that none of this guarantees success, but he already appears to have a clear idea of his plans for York. Starting with the good points, he cites the "sound base" provided by the company's product reputation, and assets that are not on the balance sheet such as its people and its joint venture agreements.

However, *it is* a mature business, and Hiller says that, while there are technical innovations, "you don't have a leg-up from technology that you get in electronics." The key to success is to produce a better product at a lower cost than competitors.

So in this respect the Hiller treatment will be similar to his approach elsewhere. The major problem area is one plant—the sprawling 1½m square feet site at York itself, where nearly half of the company's employees work. This is now operating at 50 per cent capacity, and Hiller says: "There has to be some belt-tightening. The medicine is going to be bitter."

William McSherry, a member of the Hiller team for five years and York's vice-president of plans and programmes, says cost-cutting efforts at the plant, which is really three separate facilities, would focus on consolidation into smaller square footage, reducing the need for products to be transported from one end of the site to another. The site's structure also caused some job duplication, and 40 people had already been made redundant, with perhaps double that number to come.

Elsewhere in the company, there would be improvements in efficiency, says McSherry, but on a smaller scale.

The problems in Pennsylvania have dragged down York's overall performance in the US. In contrast, profitability in Europe has been considerably higher, with a return on investment of nearly 20 per cent last year. Jack Walker, York's UK-based managing director of the distribution and industrial refrigeration businesses, says the European business "has got its marketing act together."

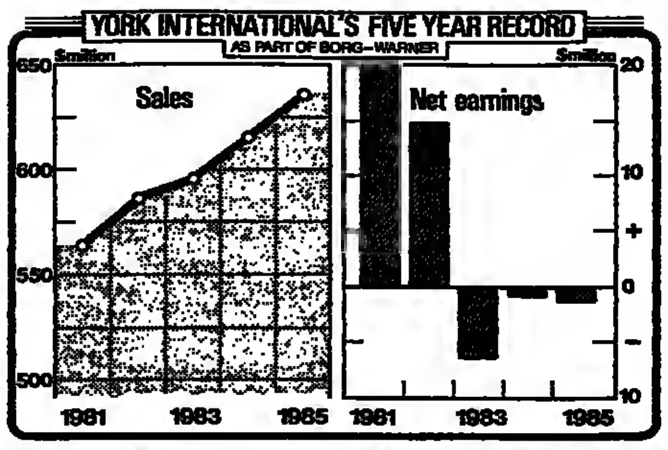
Its main factory at Basildon, Essex, has a high order backlog and has been at the forefront of developing energy-saving products which, along with the replacement market for air conditioning equipment, are seen by Walker as "two substantial areas of opportunity" where York has been moving fast. No tremendous growth, however, is seen in the industrial refrigeration business or in air conditioning for new buildings.

As for earnings, Hiller makes no promises except to say that 1986 will be a year of stabilisation. After that, much will depend on how well York responds to the Hiller treatment. The company has the good fortune of starting with a cleaned-up balance sheet and has already arranged a $60m credit line to help finance product development — an area where Hiller is hoping to get more from every dollar spent.

Furthermore, the Hiller group has a significant financial incentive to get things right. While Borg shareholders are receiving one York share for every 10 held, Hiller and his associates are paying an eventual $26.5m for an equity stake of 20 per cent in the new company, assuming the exercise of options and warrants.

This stake, along with others held by employees, outside investors supporting the Hiller team, and a 9 per cent holding in the hands of Robert Bosch, the West German engineering group, will give Hiller effective control as he implements his plan.

Stanley Hiller: moves in with his team for up to four years



Training for a guaranteed job

Alan Pike reports on a computer school

THE London Computer and Electronics School sounds as though it could be one of those slightly dubious organisations which makes rash promises to turn completely unqualified people into computer wizards and multiply their job prospects overnight.

It is in fact a reputable establishment founded with a mixture of private and public money. Its students include young jobless without formal qualifications or skills who might normally find it difficult to obtain computer and electronics training. And, after 18 months in operation, it is demonstrating a remarkable ability to multiply job prospects.

The school is a working example of the UK Government's belief that there must be a clear connection between training today and employment tomorrow—an outlook which is at the heart of its efforts to reform adult training in the UK.

The initiative to launch the school came from Richard Giordano, chairman of BOC, the industrial gases multinational. In the US he has been active in vocational training programmes since the late 1960s, and he decided to involve the company in a similar venture in the UK in the wake of the Toxteth and Brixton disturbances.

BOC wanted the new school to offer training in skills which are in short supply in the labour market, and decided after research to run courses for computer programmers, computer operators and electronic technicians.

A building at Hammersmith, near BOC's former head office, was chosen because of ease of communication from many parts of the London area.

The company has invested around £500,000 in launching the London Computer and Electronics School. Further grants of £100,000 have come from the Department of Trade and Industry and £75,000 from the London Borough of Hammersmith and Fulham.

BOC also approached the Manpower Services Commission for additional support of £325,000 to cover the first year's operations on an unusual basis—the company agreed to accept a performance related contract under which it would receive the full £325,000 only if it succeeded in placing trainees in employment.

"Some people thought we were taking a risky gamble with that sort of contract," says Tony Fielden, BOC's business development manager, who established the school.

"But on the computer courses we've obtained a 100 per cent job placement rate. In fact it's more than 100 per cent, because we take on extra trainees to cover possible drop-outs."

Bryan Nicholson, chairman of the MSC, recently warned the computing services industry that it suffers from "graduate fever," with a tendency to recruit over-qualified staff for work which could easily be handled by properly trained young people.

All applicants—most of whom contact the school in response to newspaper advertisements—undergo an initial aptitude test which examines verbal, numerical, diagrammatic, spatial and mechanical skills. This is followed by an interview to assess ability to respond to training and future employment potential.

"If the test shows they can handle the course they come in regardless of qualifications," says Fielden. "The average level of attainment is around three or four 'O' levels."

Although there is no age barrier students are typically in their twenties. About two-thirds are unemployed and the other third what Fielden regards as under-employed, doing unskilled work below their potential. They are supported financially while at the school by MSC adult training grants.

The school places a strong emphasis on developing students' practical abilities, something which is encouraged by the use of trainers from an industrial rather than an academic background.

It is made clear to trainees that the end product of their time at the school—courses last between 15 and 31 weeks—is employment, rather than training for its own sake. Equipment used for training is of a type they are likely to encounter in the workplace. The school insists upon workplace standards of attendance, punctuality and dress. And—importing a scheme which BOC has been running in the US for 15 years—the school has its own job placement service, finding employers for trainees.

MOTOR INDUSTRY

German car makers gear up against 'Japanisation'

By John Davies in Frankfurt

WEST GERMAN car-makers have learnt a healthy respect for their Japanese rivals. But while the Japanese are causing an upheaval in the US car industry and have become entrenched in Europe, the West Germans are confident of withstanding this "Samurai challenge."

The West German manufacturers have made great efforts in recent years to improve the competitiveness of their car industry. They have invested heavily in modern production equipment and flexible manufacturing. With the electronics revolution gathering pace, they are introducing or working on more sophisticated electronics-based technology for use in cars.

In addition, the Germans believe that the Japanese cost of production advantage will continue to be eroded. Wage costs, although starting from a lower level, have been rising faster in Japan than in Germany.

The Germans have just gone through two difficult years, with the Japanese simply one of a number of headaches. Car output stopped for up to seven weeks in 1984 because of the labour conflict over shorter working hours. Last year the market was in turmoil because of uncertainties about the Bonn Government's poorly thought-out plans for tightening emission controls.

Even so, the Germans produced a record 4.17m cars last year, with a trend towards higher valued and well accessoried models. They exported 61.6 per cent of them, a record 2.57m. In addition, a record 1.2m cars with German labels were produced abroad, notably in Spain.

So far, the mass production car makers—Volkswagen, and the two US-owned groups long-established in Germany, Fordwerke and Opel (General Motors)—have been the most exposed to Japanese competition. With the Japanese adding to already fierce price rivalry, all mass producers in Europe have found their margins squeezed and this is one reason why Fordwerke and Opel have made losses during the last two years. But there are other reasons, such as the labour conflict, model range problems and the dampening effect of unemployment on some markets.

WEST GERMAN CAR MARKET

	Market share (per cent) 1985	1984
Volkswagen*	23.1	21.9
Opel	13.6	14.5
Daimler-Benz	11.5	9.8
Ford	10.7	12.3
BMW	6.1	6.7
Audi	5.5	6.0
Japanese	13.3	12.0
French	7.4	7.6
Italians	4.7	5.2
Others	4.1	4.0

* VW without its Audi subsidiary.

Source: W. German Vehicle Registration Office

With the Japanese moving more into medium and luxury class market segments, they are shaping up as competitors of Audi, BMW, Daimler-Benz and Porsche. While these companies take the Japanese seriously, they are pre-occupied with struggles among themselves and with other traditional foreign rivals.

The Japanese, however, have been slowly but steadily increasing their share of the German market during the past three years. The market slipped 0.6 per cent to 2.38m last year, but Japanese sales exceeded 300,000 for the first time—rising 9.8 per cent to a record 316,380. This gave the Japanese a 13.3 per cent share, compared with 12 per cent in 1984 and around 10 per cent during the previous four years.

The Germans argue that the losers have been the French and Italians, as car imports from these countries declined last year. Overall, foreign imports, including German cars assembled in Spain, made up a virtually unchanged 30 per cent of all new registrations.

Elsewhere in Europe, the Japanese have been putting a lot of effort into "neutral" countries with little or no indigenous car production. They have been obliged to avoid large-scale imports into France, Italy and the UK, but the Germans dismiss any thought of erecting import barriers.

"Protectionism is a fundamental error," says Dr Achim Diekmann, director of the West German Automobile Industry Association. "The Japanese challenge has given the German car industry an added incentive to make its production system more efficient and to improve the quality of its products."

The Germans have trebled their rate of investment in the motor industry in the past 10 years. Last year it invested a record DM 10bn on plant, equipment and model improvements. Half the 8,800 robots at work in German industry are in car plants, including the highly automated "Hall 54" built by VW at Wolfsburg.

VW has invested an average of about DM 5bn during the past five years as part of an effort to improve its competitiveness. As a multinational, it has made strategic moves to secure footholds abroad—entering into a joint venture in China and linking with Seat (which it is now taking over) to produce cars in Spain. Its US manufacturing overcapacity is still a headache, but in Wolfsburg it has been boosting capacity and hiring workers to meet strong European demand for the new generation Golf.

Fordwerke and Opel, too, have embarked on large-scale investment to streamline production and improve their model ranges. Fordwerke announced last year it would invest more than DM 4bn over five years, DM 1bn more than in the previous five years. Opel launched a plan to invest DM 7.4bn between 1984 and 1988, partly to improve productivity and flexibility. To bolster their competitiveness, however, both Ford and Opel have long since turned to Spain as a site for production of small, low-cost models.

The upper bracket specialist companies, which have shown the fastest growth, have carried out heavy investment in Germany. Daimler-Benz, for instance, spent more than DM 1.1bn to expand its Bremen works, introducing automation where it would improve quality and flexibility. BMW is spending DM 1.3bn on its new Regensburg plant, due to start up in the autumn.

The Germans have always stressed the engineering performance of their cars—what they refer to as the "genuine technical qualities." In a similar vein, they are bent on harnessing electronics for "serious" and "out-of-sight" purposes such as anti-skid technology. The Japanese, they argue condescendingly, take more readily to electronic gadgets and "blinking lights," but they do not believe this is the case with buyers of German cars.

WORLD CAR PRODUCTION (figures in millions)

	1985*	1984
West Germany	4.17	3.79
France†	2.63	2.71
Italy	1.38	1.44
UK	1.05	0.91
Other W. Europe	2.26	2.18
Total W. Europe	11.49	11.03
Japan	7.60	7.07
US	8.19	7.77
Canada	1.08	1.02
Latin America	1.19	1.09
Other	3.10	2.99
Total	32.65	30.97

* Some figures estimated. † Including kits for AMC/Renault production in US.

Source: West German Automobile Industry Association

Car technology is expected to become a greater competitive factor as the Japanese lose more of their cost of production advantage. "The Japanese still have an advantage of around 20 per cent," says Dr Diekmann of the automobile industry association. They lose half of that through shipment and associated costs, he says. "Towards the end of the century, a great part of this cost advantage should be lost because the Japanese will have caught up with our cost levels."

Wage costs indicate this trend. The Japanese motor industry's hourly labour cost in 1980 was DM 14.50, compared with DM 26.91 in German motor plants. By 1984 the gap had narrowed, with Japan's cost DM 25.48 and Germany's DM 32.60, according to the automobile industry association.

The Germans could face harder competition in the medium term in more "fluid" markets such as the US. "No one can foresee how the tastes of car buyers will turn out."

"We feel uneasy about what we see as the Japanisation of the US motor industry," says Dr Diekmann. At the same time the Germans are warily watching Japanese moves for production in the UK. But he feels that the decisive competitive factor in future will be technology.

"There is a long tradition of over-emphasising the engineering part of the car business in Germany," he admits. "But in the period of intense technology-based competition which the car has now entered, this may turn out to be an advantage."

UK NEWS

Biwater confirms award of Malaysian contract

BY CHRISTIAN TYLER, TRADE EDITOR

ONE of the biggest contracts in south-east Asia yet awarded to a British company has been signed in Malaysia. But the announcement in the UK yesterday was clouded by hesitation on the part of the British Government to confirm the deal until details of a large UK aid package have been settled.

Biwater, a specialist contractor in water treatment, confirmed that it had won a 1.4bn ringgit (£364m) turnkey contract with a Malaysian partner to supply drinking water for millions of rural people in a five-year project. About £200m worth of equipment and services would be provided from the UK.

The contract has been seen as the symbol of restored political relations between Britain and Malaysia, interrupted four years ago by a dispute over the "repatriation" of Malaysian assets and a cut in scholarships for foreigners studying in Britain.

Since her visit to Malaysia last April, Mrs Margaret Thatcher, the Prime Minister, has been taking a personal interest in the Biwater negotiations, which have taken two years to conclude.

Britain has promised to give £60m of aid money and guarantee bank loans to the value of a reported £135m to help to win the contract for Biwater, which is based in Dorking, south of London.

Last night Whitehall officials said the details of the aid package – which would be one of the largest of its kind – had still to be settled. The Malaysian Government had yet to accept the offer of aid money and Biwater's announcement was premature.

The Government's hesitation was described by the company as "sour grapes." A spokesman said ministers had been hoping to get political credit out of the deal and had tried to delay the announcement. The contract had, however, been signed on Monday under television lights in the Malaysian Prime Minister's office in Kuala Lumpur.

One Whitehall official suggested that the British Government had still not decided how great its financial support of the project should be. Others said the £60m was already committed.

"As far as we are concerned, there is no problem with the financial package," a Biwater spokesman said last night. "I cannot see how at this stage anything can go wrong."

News of Biwater's success first emerged last November but the contract signing was postponed at the last minute. There were fears then that premature disclosure would upset the Malaysian authorities.

Biwater, with its partner Antah Holdings, controlled by the royal family of Negri Sembilan state, is to design and construct 174 rural water supply schemes in all of Malaysia's 13 states. Work is to start this summer.

Anglo-Malaysian ties became strained in 1982 when Dr Mahathir, the Malaysian Prime Minister, launched a campaign against British goods and services.

In imposing the so-called "buy British last" policy, Dr Mahathir was angered by what he considered to be patronising British attitudes towards its former colony, as well as the failure of the UK authorities to appreciate Malaysian aspirations, in particular with regard to the buy-back of British plantation and mining assets in Malaysia.

Tory revolt forces amendment to Financial Services Bill

BY IVOR OWEN

THE GOVERNMENT'S political problems over the Financial Services Bill increased yesterday when a Tory backbench revolt forced through an amendment giving the Securities and Investment Board (SIB) powers to prosecute alleged criminal offenders.

The amendment was moved during a standing committee debate on the bill in the House of Commons by Mr Anthony Nelson, (Conservative), who has campaigned for more explicit statutory recognition and authority for the SIB. The body is expected to become the City of London's key regulatory authority.

It was passed by 11 votes to seven after Mr Nelson and his fellow Conservatives, Mr Robert McCrindle, Mr Tim Smith and Mr Tim Yeo sided with the Opposition. The vote followed a strongly worded attack on the Department of Trade and Industry's system for bringing fraud prosecutions by Mr Smith.

He said that there were delays because the process was "lawyer ridden" and that this "suited lawyers because their fees accrued more quickly."

Yesterday's reversal for the Government came two weeks after it suffered an earlier defeat when opposition MPs joined forces with Mr Nelson to name the SIB in the bill, recognising it in law.

Mr Nelson said last night that the earlier amendment had "taken the chain off the tiger. My new amendment has taken the muzzle off the tiger's teeth."

Last night Mr Michael Howard, the Consumer and Corporate Affairs Minister, said that it would be a finely balanced matter of judgment on whether the Government would try to remove SIB's new powers of prosecution during the bill's report stage after Easter.

During the debate, Mr Howard said that it would be an undesirable and unnecessary duplication of scarce human resources to give the SIB prosecution powers which the Government was to reserve to the Trade and Industry Department and the Director of Public Prosecutions.

A committee on fraud trials had argued strongly against the proliferation of authorities responsible for starting criminal proceedings.

Mr Nelson's amendment gives the SIB powers to prosecute only for offences specifically defined in the bill, including operating an investment business without authorisation or making false or misleading statements to investors or potential investors.

NOTICE TO HOLDERS OF

BEATRICE FOODS OVERSEAS FINANCE N.V.

4½% Convertible Subordinated Guaranteed Debentures Due 1992
Convertible on and after April 1, 1973 into Common Stock of, and Guaranteed on a Subordinated Basis as to Payment of Principal, Premium, if any, Interest and Sinking Fund by Beatrice Companies, Inc.

Pursuant to section 1206 entitled "NOTICE TO HOLDERS PRIOR TO CERTAIN ACTIONS" of the Indenture dated as of September 1, 1972, governing the above referenced series of Debentures, notice is hereby given that an Agreement and Plan of Merger as modified from time to time (the "Agreement") dated as of November 14, 1985, and modified as of February 2, 1986, was entered into by and among Beatrice Companies, Inc., a Delaware corporation (the "Company"), BCI Holdings Corporation, a Delaware corporation ("Parent"), and BCI Merger Corporation, a Delaware corporation and an indirect subsidiary of Parent ("Merger Sub"). In accordance with the Agreement and the Delaware General Corporation Law, Merger Sub shall be merged with and into the Company (the "Merger") whereupon the separate existence of Merger Sub (except as may be continued by operation of law) shall cease, and the Company shall continue as the surviving corporation.

Subject to stockholder approval and the satisfaction or waiver of the conditions set forth in the Agreement, it is anticipated that the parties thereto will cause the Merger to be consummated in mid or late April 1986, by filing with the Secretary of State of Delaware a certificate of merger in such form as required by, and executed in accordance with, the relevant provisions of the Delaware General Corporation Law. As of the effective time of the Merger, each share of common stock, without per value, of the Company (the "Shares") issued and outstanding immediately prior to the effectiveness of the Merger (other than (a) Shares which are issued and outstanding immediately prior to the effective time of the Merger and owned by Parent or any direct or indirect subsidiary of Parent, or which are held in the treasury of the Company or its subsidiaries and (b) Shares held by any holder who has perfected dissenter's rights under the Delaware General Corporation Law) shall be cancelled and extinguished and be converted into the right to receive (i) $40 in cash, without any interest thereon, and (ii) 10/25 of a validly issued, fully paid and nonassessable share of Cumulative Exchangeable Preferred Stock of Parent with a liquidation preference of $25 per Share.

Following consummation of the Merger, holders of the Debentures will be entitled to receive upon conversion of their Debentures, for each Share into which such Debentures were convertible immediately prior to the Merger, $40 in cash, without any interest thereon, and 10/25 of a share of Cumulative Exchangeable Preferred Stock of Parent with a liquidation preference of $25 per Share. Any holder of Debentures who wishes to claim dissenter's rights with respect to the Shares into which such holder's Debentures are convertible must convert his Debentures into Shares prior to the effectiveness of the Merger, and must complete the further steps specified in the Delaware General Corporation Law for the perfection of such rights.

Any questions regarding the effect of the Merger on outstanding Debentures, or regarding the procedure for conversion of Debentures into Shares prior to the effectiveness of the Merger should be directed to:

Mr. Michael Quane,
Beatrice Foods Overseas Finance N.V.
2 North LaSalle St., 25th Floor
Chicago, Illinois 60602

BEATRICE FOODS
OVERSEAS FINANCE N.V.

GESTETNER HOLDINGS PLC

At the Company's Annual General Meeting on 19th March 1986, a final cash dividend of 1p per share in respect of the 52 weeks ended 2nd November 1985 was approved for payment, on 3rd April 1986, to holders of Ordinary shares registered at the close of business on 14th February 1986.

Holders of Ordinary shares in bearer form should lodge Coupon 122 at Barclays Bank PLC, Securities Services Department, 54 Lombard Street, London EC3P 3AH on or after 3rd April 1986 for their entitlement to the above dividend.

Holders of Ordinary Capital shares are reminded that, whilst they have no entitlement to a cash dividend at this time, they are entitled to scrip in lieu of the final dividend for the 52 weeks ended 2nd November 1985. Such entitlement, based upon each Ordinary Capital share registered at close of business on 14th February 1986, is as follows:—

based on the average price of	102.8824p
for each Ordinary Capital share held, holders will receive	0.013885 of an Ordinary Capital share

Fractions of new shares will be sold for the benefit of the Company. Scrip, allotted on 20th March 1986, will be despatched to registered shareholders on 2nd April 1986.

Holders of Ordinary Capital shares in bearer form should lodge Coupon 122, with allotment instructions, at Barclays Bank PLC, Securities Services Department, 54 Lombard Street, London EC3P 3AH on or after 2nd April 1986 for their entitlement to registered Ordinary Capital shares in accordance with the above.

R. L. E. Lewis
Secretary

London N17 9LT
March 24 1986

NOTICE TO HOLDERS OF

BEATRICE FOODS OVERSEAS FINANCE N.V.

7¼% Convertible Subordinated Guaranteed Debentures Due 1990
Convertible on and after July 1, 1971, into Common Stock of, and Guaranteed on a Subordinated Basis as to Payment of Principal, Premium, if any, Interest and Sinking Fund by Beatrice Companies, Inc.

Pursuant to section 1206 entitled "NOTICE TO HOLDERS PRIOR TO CERTAIN ACTIONS" of the Indenture dated as of November 1, 1970, governing the above referenced series of Debentures, notice is hereby given that an Agreement and Plan of Merger as modified from time to time (the "Agreement") dated as of November 14, 1985, and modified as of February 2, 1986, was entered into by and among Beatrice Companies, Inc., a Delaware corporation (the "Company"), BCI Holdings Corporation, a Delaware corporation ("Parent"), and BCI Merger Corporation, a Delaware corporation and an indirect subsidiary of Parent ("Merger Sub"). In accordance with the Agreement and the Delaware General Corporation Law, Merger Sub shall be merged with and into the Company (the "Merger") whereupon the separate existence of Merger Sub (except as may be continued by operation of law) shall cease, and the Company shall continue as the surviving corporation.

Subject to stockholder approval and the satisfaction or waiver of the conditions set forth in the Agreement, it is anticipated that the parties thereto will cause the Merger to be consummated in mid or late April 1986, by filing with the Secretary of State of Delaware a certificate of merger in such form as required by, and executed in accordance with, the relevant provisions of the Delaware General Corporation Law. As of the effective time of the Merger, each share of common stock, without par value, of the Company (the "Shares") issued and outstanding immediately prior to the effectiveness of the Merger (other than (a) Shares which are issued and outstanding immediately prior to the effective time of the Merger and owned by Parent or any direct or indirect subsidiary of Parent, or which are held in the treasury of the Company or its subsidiaries and (b) Shares held by any holder who has perfected dissenter's rights under the Delaware General Corporation Law) shall be cancelled and extinguished and be converted into the right to receive (i) $40 in cash, without any interest thereon, and (ii) 10/25 of a validly issued, fully paid and nonassessable share of Cumulative Exchangeable Preferred Stock of Parent with a liquidation preference of $25 per Share.

Following consummation of the Merger, holders of the Debentures will be entitled to receive upon conversion of their Debentures, for each Share into which such Debentures were convertible immediately prior to the Merger, $40 in cash, without any interest thereon, and 10/25 of a share of Cumulative Exchangeable Preferred Stock of Parent with a liquidation preference of $25 per Share. Any holder of Debentures who wishes to claim dissenter's rights with respect to the Shares into which such holder's Debentures are convertible must convert his Debentures into Shares prior to the effectiveness of the Merger, and must complete the further steps specified in the Delaware General Corporation Law for the perfection of such rights.

Any questions regarding the effect of the Merger on outstanding Debentures, or regarding the procedure for conversion of Debentures into Shares prior to the effectiveness of the Merger should be directed to:

Mr. Michael Quane
Beatrice Foods Overseas Finance N.V.
2 North LaSalle St., 25th Floor
Chicago, Illinois 60602

BEATRICE FOODS
OVERSEAS FINANCE N.V.

NOTICE TO HOLDERS OF

Warrants to Purchase Common Stock of Beatrice Companies, Inc.

Pursuant to Section 6(b) of the Warrant Agreement dated as of September 15, 1984, by and between Beatrice Companies, Inc., a Delaware corporation (the "Company"), and Citibank, N.A. (the "Warrant Agreement"), notice is hereby given by the Company that the Company will execute an amendment (the "Amendment") to the Warrant Agreement in connection with the hereinafter described Merger.

An Agreement and Plan of Merger as modified from time to time (the "Agreement") dated as of November 14, 1985, and modified as of February 2, 1986, was entered into by and among the Company, BCI Holdings Corporation, a Delaware corporation ("Parent") and BCI Merger Corporation, a Delaware corporation and an indirect subsidiary of Parent ("Merger Sub"). In accordance with the Agreement and the Delaware General Corporation Law, Merger Sub shall be merged with and into the Company (the "Merger") whereupon the separate existence of Merger Sub (except as may be continued by operation of law) shall cease, and the Company shall continue as the surviving corporation. Subject to stockholder approval and the satisfaction or waiver of the conditions set forth in the Agreement, it is anticipated that the parties thereto will cause the Merger to be consummated in mid or late April 1986, by filing with the Secretary of State of Delaware a certificate of merger in such form as required by, and executed in accordance with, the relevant provisions of the Delaware General Corporation Law. As of the effective time of the Merger, each share of common stock, without par value, of the Company (the "Shares") issued and outstanding immediately prior to the effectiveness of the Merger (other than (a) Shares which are issued and outstanding immediately prior to the effective time of the Merger and owned by Parent or any direct or indirect subsidiary of Parent, or which are held in the treasury of the Company or its subsidiaries and (b) Shares held by any holder who has perfected dissenter's rights under the Delaware General Corporation Law) shall be cancelled and extinguished and be converted into the right to receive (i) $40 in cash, without any interest thereon, and (ii) 10/25 of a validly issued, fully paid and nonassessable share of Cumulative Exchangeable Preferred Stock of Parent with a liquidation preference of $25 per Share.

The Amendment will provide that the Company after the Merger shall specifically assume all of the obligations which the Company originally undertook pursuant to the Warrant Agreement and the warrants issued thereunder (the "Warrants"). The Amendment will further provide that the holder of each outstanding Warrant to purchase Shares shall have the right during the period such Warrant is exercisable as specified in Section 4 of the Warrant Agreement, after the effective date of the Merger, to purchase (i) $40 in cash, without any interest thereon, and (ii) 10/25 of a validly issued, fully paid and nonassessable share of Cumulative Exchangeable Preferred Stock of Parent with a liquidation preference of $25 per Share for each Share for which such Warrant was exercisable immediately prior to the Merger.

Any holder of Debentures who wishes to claim dissenter's rights with respect to the Shares for which such holder's Warrants are exercisable must exercise his Warrants for Shares prior to the effectiveness of the Merger, and must complete the further steps specified in the Delaware General Corporation Law for the perfection of such rights.

The Amendment will also provide for adjustments which, for events subsequent to the effective date of the Amendment, shall be as nearly equivalent as may be practicable to the adjustments provided for in Section 5 of the Warrant Agreement.

Any questions regarding the Amendment, the effect of the Merger on outstanding Debentures or the procedure for conversion of Debentures into Shares prior to the effectiveness of the Merger should be directed to:

Mr. Michael Quane
Beatrice Companies, Inc.
2 North LaSalle St., 25th Floor
Chicago, Illinois 60602

BEATRICE COMPANIES, INC.

Employers see better growth, inflation outlook

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE COLLAPSE of the oil price and the steep fall in sterling's value against European currencies have provided a more optimistic outlook for growth and inflation in Britain, the Confederation of British Industry (CBI) said yesterday.

In its half-yearly forecast of economic prospects, conducted just after last Tuesday's budget, the employers' organisation predicts that the current economic recovery will continue through this year and next.

That picture is supported by the CBI's latest monthly industrial trends survey, also published yesterday, which suggests that confidence among manufacturing industry is gradually reviving after a sharp dip at the beginning of the year.

In particular, companies are anticipating an upturn in export sales as the result of increased competitiveness against their rivals in Europe.

The CBI does not expect the full benefits of lower oil prices for world trade, investment and corporate profits to be felt until next year, but the impact on inflation is expected to feed through over coming months.

The forecast suggests that the rate of economic growth will fall back to 2.5 per cent in 1986 before rising to 2.8 per cent next year, while inflation will be on average below 4 per cent in both years.

That, however, is likely to bring only a fractional fall in the unemployment rate. The CBI's soundings among its members since the budget have indicated considerable disappointment among members over the absence of more substantive measures to tackle the problem.

The employers' organisation made it clear yesterday that it will continue to press hard for further early reductions in interest rates and for full British membership of the European Monetary System.

The CBI also expects to hold early talks with the Treasury on the Government's suggestion that it might use tax incentives to promote profit-sharing agreements in industry.

Toyota 'to sell Lotus stake to GM'

By John Griffiths

THE SALE to General Motors of Toyota's 21.48 per cent stake in Group Lotus, the UK sports-car and engineering concern, is understood to be imminent.

GM last night was expecting confirmation of reports from Tokyo that the sale would go ahead. It would take GM's holding in Lotus to more than 90 per cent after its agreed bid in January, according to merchant bankers Morgan Grenfell, who advised GM on the bid.

GM has made clear that it wants 100 per cent control of Group Lotus. Toyota was the only substantial shareholder not to have given an early acceptance of the offer.

Toyota's reported sale price of Y1.27bn (£4.77m) for 3.77m shares is in line with the 129.5p a share terms of the January bid.

Japan's largest vehicle maker, whose relations with Lotus's British board members became strained in the few months before the GM deal, has been hinting for some days that it would yield its share.

Despite the cooling of relations between Toyota and Lotus, a collaboration agreement between the two sides signed in 1980 is understood to be still in place. Lotus remains hopeful that Toyota's components can be used in a heavily revised version of its planned "cheap" X100 sports car, which had been scheduled for production next year, but the launch of which now faces delays.

Toyota's decision will help to clear the decks for an early GM approval of a new strategy for the future being drawn up by existing Lotus board members. Under it, Lotus would undertake early replacement of its complete range of cars, increase production to 10,000 cars or more a year – from last year's 800 – and possibly build engines and other components both for itself and GM.

Its board is expected to be restructured shortly, to comprise all-British executive directors, plus two non-executive appointees from GM.

CLEARING HOUSE TO REPLACE PRINCIPAL-TO-PRINCIPAL DEALINGS

LME to reform trading system

BY STEFAN WAGSTYL

THE LONDON Metal Exchange, which is struggling to recover from the tin crisis, yesterday bowed to heavy pressure from some of its members and from the regulatory authorities and decided to reform its trading system.

In one of the biggest changes to its rules since it was founded in 1677, the exchange will replace the current arrangements, under which traders deal directly with each other in a principal-to-principal market, with a clearing house, which acts as an intermediary. Almost every other financial market in the world already uses a clearing house, because they are widely thought to reduce trading risks.

The LME board decision yesterday followed a meeting between Mr Jacques Lion, LME chairman, and Mr Michael Brown, chief executive, with Sir Kenneth Berrill, chairman of the Securities and Investments Board, which has been set up by the Government to regulate London markets. Mr Brown said the exchange was told by Sir Kenneth that it had to have a clearing house.

That clearly gave the LME no choice, since it will, by law, have to register with the SIB later this year under changes planned by the Government's Financial Services Bill.

But some LME members had in any case been demanding urgent reform. Last week two companies – J. H. Rayner (Mincing Lane) and Holco Trading – stopped trading on the LME but said they would reconsider if the exchange brought in a clearing house.

The LME authorities had been considering possible reforms well before the £900m default of the International Tin Council plunged the market into difficulties in October. They were well aware of the SIB's preference for a clearing house. But some traders continued to argue that the principal-to-principal market was adequate and that the proposed changes would drive away business by putting up trading costs.

The LME board said in a statement that it was now "accelerating the pace of discussion" on reconstructing the market and in particular on adopting a clearing house. It is not planning to run its own clearing house but is instead negotiating with the International Commodities Clearing House, which handles clearing for other London futures exchanges and for several exchanges in other countries.

The LME is anxious that it will not lose its traditional clientele among mining and metals companies. It said: "These negotiations will reflect the wish of the LME that [it] remains a trade-orientated market."

ICCH, which is owned by a bank consortium, is familiar with the LME since it has handled its existing trade monitoring system-called Memo – since 1977. Mr Ian McGaw, the managing director, said: "I believe we can operate a clearing system that will reflect the particular requirements of the LME."

Telegraph newspapers to move with 'substantial' redundancies

BY RAYMOND SNODDY

THE Daily and Sunday Telegraph newspapers are to move out of Fleet Street in central London after 131 years of publishing in the traditional heart of the British national newspaper industry.

The move by everyone, including journalists and commercial staff, is part of a plan outlined to the newspapers' unions yesterday which will also involve "substantial" redundancies among the printing staff.

Mr Andrew Knight, chief executive of the Daily Telegraph group, described the changes as "a survival plan and a viability plan" designed to bring the loss-making Daily Telegraph back into profit.

All departments, apart from the printing operation, would be moved into a single building in "a reasonably central London location." The new Telegraph headquarters might be on the same site as the company's new printing plant at West Ferry Road, in the Isle of Dogs, east London, but other options are also being considered.

"You think a long time before you move from somewhere where you have been from the beginning," Mr Knight said. "But there are new conditions in the newspaper industry and where we are is not an efficient place to run a newspaper."

He said that before printing started at the new London plant in September or October, "we have to have a company which is able to trade at a profit."

The company is refusing to say how many redundancies it is seeking from a total staff of about 3,300.

Union officials were warned yesterday that redundancy packages of up to £45,000 could be financed only if there was full co-operation and continuous production during the transition period.

Mr Knight emphasised yesterday that the survival plan was not "sabre-rattling but grounded in financial reality." In the first half of the financial year to March 1986, the company lost £16m, including redundancy and training payments, and the second half would show no improvement.

The Daily Telegraph group is also setting up separate companies for its Manchester and London printing operations – Trafford Park Printers and West Ferry Printers. Individual managements of the new companies would reach their own agreements with unions on terms and number of employees and would be actively seeking contract printing work.

Mr Knight said the aim was through proper procedures "to achieve recognition [of the unions], generous redundancy and a company that was earning its keep."

● British Printing & Communication Corporation (BPCC), the publicly quoted printing group headed by Mr Robert Maxwell, is to acquire the journal publishing operations of Pergamon Press, Mr Maxwell's private company, in a deal worth £238.65m in shares, Charles Batchelor writes.

The deal would boost BPCC's profits and market capitalisation as a prelude to further acquisitions intended to establish the company as one of the leading groups in the world information and communications business.

Pergamon Journals now numbers 361 titles ranging from Accident Analysis and Prevention to Vistas in Astronomy, from Insect Biochemistry to the Journal of Aerosol Science. It has expanded enormously since Mr Maxwell started importing research documents into Britain from post-war Germany.

The journals, described by Mr Maxwell yesterday as "the crown jewels of Pergamon Press," have long been known to be very profitable but their contribution has been obscured by the growing spread of Pergamon's other interests.

The deal, which will involve the issue of 107.5m new BPCC shares, will increase the Pergamon stake in BPCC to nearly 75 per cent and mean BPCC could finance takeovers by the issue of shares without Pergamon going below 50 per cent of BPCC.

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Shift to right in TGWU elections

By David Thomas, Labour Staff

A SHIFT to the right has taken place in elections for the executive of the Transport and General Workers Union (TGWU), Britain's largest union.

Election results for 14 posts to represent the union's trade or industrial groupings are due to be announced today but it is already clear that several left-wing incumbents have lost their seats.

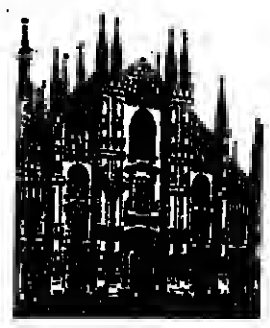
It is understood, for example, that the right has won the seats representing the agriculture and civil-aviation trade groups.

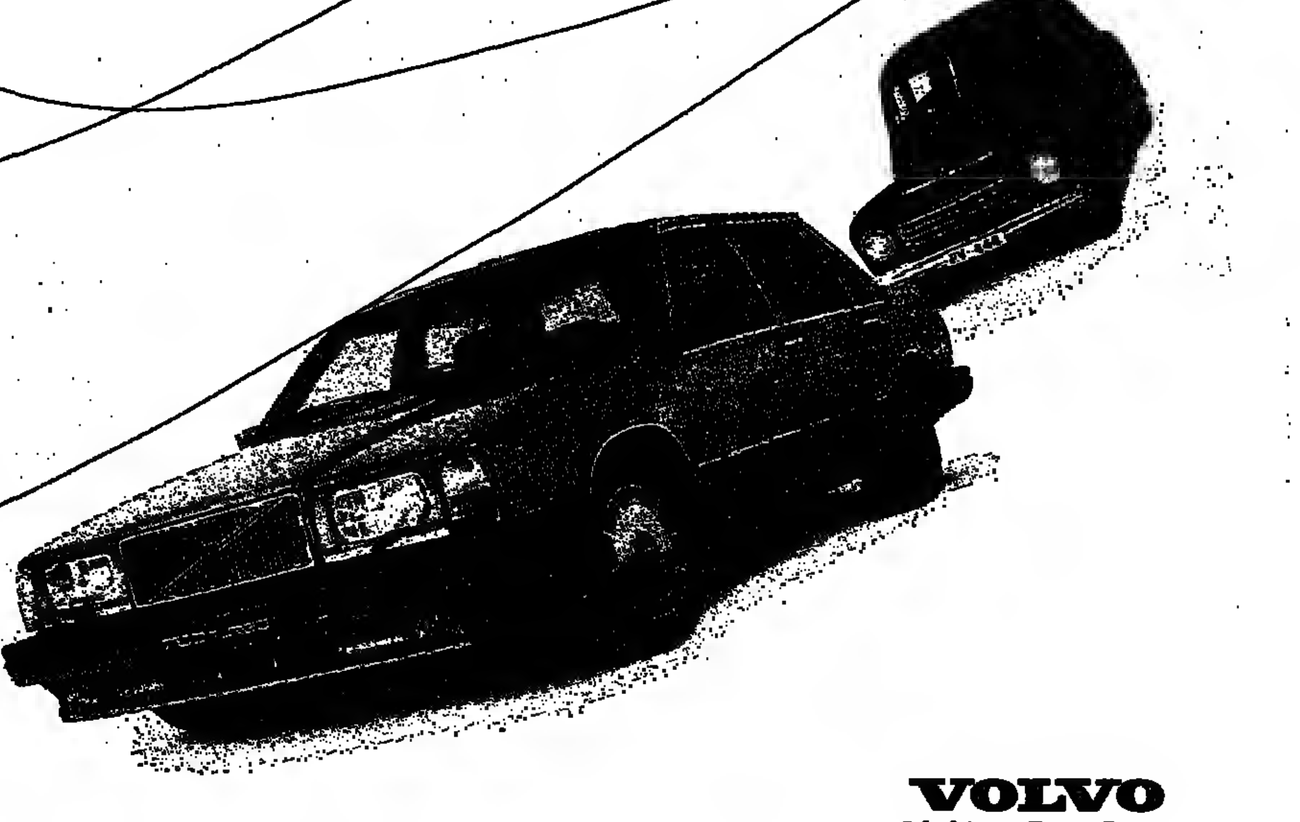
This set of elections is the first in which the trade group representatives on the union's executive have been elected by secret individual ballot of the membership, in accordance with the 1984 Trade Union Act.

However, it appears that the right has not obtained a clean sweep of the elections. It is understood, for example, that both the road transport and public services trade groups have returned left-wingers.

Political groupings on the 41-strong TGWU executive are not as clearly defined as in some other unions, but in the past the left has normally been able to control the union.

The extent to which the gains by the right will affect the union's policy and direction is therefore not yet clear.





UK NEWS

Joint steel venture has assets of £400m

By Nick Garnett

THE ENGINEERING steels businesses of British Steel (BSC) and GKN (Guest Keen and Nettlefold) and GKN's forging operations have been merged after final approval from the EEC Commission.

The new company, United Engineering Steels (UES), which is now the only large British producer of some steels used in the motor and engineering industries, will be one of the five largest European special steel makers.

UES has operating assets of about £400m with a workforce of 11,000. Although the company is not contemplating any major closures, one of its first decisions will be to rationalise its steel re-rolling capacity in the English Midlands where GKN and BSC have traditionally overlapped.

The chief executive of the company is Mr John Pennington, the present managing director of BSC Special Steels. Chairman is Mr Ian Donald, GKN's deputy chairman.

British Steel has contributed 58 per cent of the company's assets' and GKN the rest but GKN and BSC will have equal voting rights.

The formation of UES follows six years of protracted negotiations and is one of a number of deals which have helped to rationalise the UK steel industry and privatise parts of state-owned British Steel's interests.

In Europe, UES's main opposition comes from Ascometal of France, Deltasider of Italy and the two West German producers Krupp and Thyssen.

Investment set to rise 13% in chemical industry

BY TONY JACKSON

UK INVESTMENT by the chemical industry is set to increase by 13 per cent to £1.48bn this year, according to the annual survey by the Chemical Industries Association.

The increase, amounting to 8 per cent in real terms, shows marked regional variations. Investment in the south-east of England is to rise from 18 per cent to 26 per cent of the total, mainly because of increased expenditure by pharmaceutical companies.

This conflicts with drug industry claims that UK Government moves to limit drug companies' profits have led to cancellation of investment plans. The association said, however, that its sample of drug companies might not represent the industry as e whole.

Chemical industry investment for the three years 1986-88 was planned at £4.4bn, the association said. This was 17 per cent ahead of the previous three years in real terms but still fell short of the peak period between 1977 and 1979.

The 1985 figure for capital expenditure, at £1.31bn, was 25 per cent ahead of 1984 or 18 per cent up in real terms. After the 1986 increase respondents to the survey expected only a modest increase in their spending in 1987, to £1.55bn in total, and e drop to £134bn in 1988.

The UK's share of total EEC chemical investment is increasing. From e 1979 peak of 22.9 per cent of the EEC total the figure had slumped to 18.4 per cent in 1982. Since then the proportion has steadily recovered to last year's 21.6 per cent.

The association said its own expectations for growth in the UK industry had improved sharply in recent months, from a volume increase of 1 per cent to 3 per cent.

BBC prepares to launch radio data services

BY RAYMOND SNODDY

THE BBC is to launch a new Radio Data System (RDS) next year which will automatically tune radios to the best possible channel signal and may eventually provide news flashes in the form of visual text.

The plan is to transmit commands and information with the existing VHF-FM radio programme signal to specially designed "intelligent" radio sets.

The Radio Data System is similar in concept to teletext which provides information on the back of the television signal. Mr Richard Francis, managing director of BBC Radio, said yesterday: "I think this is the biggest breakthrough for the radio listener since the introduction of the transistor."

The new BBC service will begin in the autumn of 1987 and BBC executives say that a number of European and Japanese radio manufacturers are interested in producing the new generation of radio sets needed for the service.

A number of other European countries are also planning to transmit data with their radio signals. The sets are expected to be about 10-15 per cent more expensive than existing radios to start with, although the difference is likely to fall in mass production.

Initially, the BBC digital service will provide fully automatic timing with a read-out of the station name. Each channel will have a short code. Use of the code will enable the set to seek a chosen service, find the strongest signal and, for car radios, continue to lock on to the signal throughout the journey.

Oil price fall worries over gas flotation

BY KEVIN BROWN

THE GOVERNMENT came under strong pressure in the House of Commons yesterday to spell out the effects of falling oil prices on the proposed flotation of British Gas.

Mr Stan Orme, Labour's energy spokesman, told MPs during a debate on the Gas Bill which paves the way for the flotation, that the Government had "sidestepped" the implications of a fall in oil prices to $12 a barrel.

"With such a massive sale of public assets at stake, we have a right to know if the Government has a strategy for dealing with this," he said.

Mr Malcolm Bruce, for the Alliance, said MPs were entitled to know whether the Government was determined to press ahead with a flotation in the autumn regardless of market circumstances.

"Even if the Government was determined in principle to go ahead with privatisation, it would be quite irresponsible to do it when the market was at the bottom of its prices, and the asset, which belongs to the nation, would be undervalued," he said.

Mr Spencer Batiste (Conservative) said that, although the Government had rejected amendments introducing a statutory responsibility for British Gas to have regard to energy efficiency, the privatised company should heed the concern that had been expressed in the Commons.

Pendulum verdict for electricians

By Philip Bassett, Labour Editor

MEMBERS OF the EETPU electricians' union have won extra increases of almost £10 a week in their first use of pendulum arbitration – the controversial strike substitute procedure.

The outcome of the arbitration, at an Essex glass-processing company, is being hailed by EETPU leaders as a significant vindication of the union's so-called "no-strike" agreements, which have been bitterly criticised by some other unions.

Although pendulum arbitration, in which the arbitrator has to decide solely between the union's last claim and the employer's final offer, has been used to e very limited extent in the UK before, the arbitration at the Harlow-based glass company Bowman Webber is the first time that the *EETPU's* strike-free package has been put fully to the test.

The company recently won a £2m-£3m order for mirror glass for the US, which meant that it wanted to implement its long-stated intention to move from normal day working to a system of two shifts e day.

The EETPU tabled a complex, 12-point claim for shift working payments, to which the company was unable to agree. Under the terms of the agreement between the company and the electricians, the difference was then put to conciliation by Acas, the conciliation service.

Again, there was no agreement – although at that point the union reduced its claim to only three main points – and the issue then went to arbitration under an Acas arbitrator.

Mr Roy Sanderson, EETPU national officer, said yesterday: "This is absolute justification of pendulum arbitration. It proves it is the best dispute-solving mechanism available in industrial relations."

UK NEWS

Barclaycard signs up stores for electronic shopping scheme

BY ALAN CANE

BARCLAYCARD, the credit-card subsidiary of Barclays Bank, yesterday announced the first phase of an ambitious "electronic shopping" scheme designed to cut costs and paperwork, and deter fraud to credit-card transactions.

Known as Darts (Data Capture and Authorisation Retail Transaction Service) the scheme is now in operation in 12 shops in the Brent Cross shopping complex, North London.

They include Miss Selfridge, Peter Lord, Athena Galleries and Our Price records. A further 40 retailers at Brent Cross are expected to install Darts soon.

Mr Peter Ellwood, Barclaycard chief executive, said the scheme was "potentially the most significant step on the road to the cashless society." The key to the system is a computer terminal that sits on retailers' countertops and has the ability to "read" information written magnetically on plastic credit cards.

When the card is passed through the terminal, a telephone call is made automatically to the Barclaycard computer centre to verify that the card is genuine, valid and not stolen. If the transaction is within the credit limit, all the customer has to do is sign a printed receipt to complete the purchase.

Barclaycard intends to rely on signature verification rather than personal identity numbers (Pin): "People forget their Pins," Mr Ellwood said.

Transaction details are transmitted electronically by the retailer over the telephone line to the Barclaycard computer after working hours. Access and other credit cards will eventually be accepted by the Darts terminal. "Foreign" Visa cards will be validated via satellite link to Visa in the US.

The scheme eliminates much of the paperwork involved in the credit-card business. In 1985, there were more than 200m Barclaycard transactions.

The Barclaycard experiment is one of three being carried out with the approval of the London and Scottish banks as part of the development of a national electronic shopping system involving both credit and debit cards to begin in 1988.

Mr Ellwood said Darts was already proving so popular with retailers that plans to install only 1,000 computer terminals had been revised to "several thousand" in collaboration with the Joint Credit Card Company owned by National Westminster, Midland and Lloyds banks, which issues Access cards.

The first 1000 terminals are expected to be installed by the middle of June.

Barclaycard confirmed that it was in preliminary talks with Access with a view to establishing a joint company to guide the development of electronic ways of processing credit-card transactions. Other credit-card organisations such as American Express and Diners' Club were potential members.

Mr Ellwood denied, however, that Barclaycard's plans were a threat to the national cashless shopping scheme, now being developed under the name Eft-Pos (electronic funds transfer at the point of sale).

Barclaycard was, he said, working towards ways of migrating Darts into the national Eft-Pos scheme: "The full scheme is still some way off and in the meantime, Darts meets an important need."

Technology, Page 8

Readership of Today 'declining'

By Raymond Snoddy

THE READERSHIP of Mr Eddie Shah's new daily newspaper, Today, is declining, according to latest market research. Figures for the second full week of production show that the average daily readership of the colour tabloid fell to less than 5 per cent of a panel of more than 1,000 consumers.

The figure for the first few days of production was 9.1 per cent. That fell to 6.6 per cent in the first full week after the launch.

The further drop suggests that the readership of Today has not yet "bottomed out" after the initial flurry of curiosity and the extensive television advertising campaign.

One newspaper analyst, who thought that Mr Shah would take about 5 per cent of the market after the initial publicity died down, said the result was only a little worse than might have expected.

Latest figures are from a market-research project carried out by AGB Cable and Viewdata. The company is tracking the performance of all national newspapers for a 13-week period that began just before the launch of the new paper. Members of the panel keep a diary of weekly reading and the results are analysed by computer.

BL affair resurrects doubts over style of Thatcher Cabinet

BY PETER RIDDELL, POLITICAL EDITOR

TEN DAYS AGO, Mrs Margaret Thatcher's message to the Conservative Central Council was that the Government operated by firmness and conviction, not by bending and turning.

Yet those words have apparently been contradicted since then by the ineptness and vacillation over BL, the state-owned vehicles group, leading up to yesterday's statement to the House of Commons by Mr Paul Channon, the Trade and Industry Secretary.

As one Whitehall wit remarked when asked what the score was: "Department of Trade and Industry, nil; rest of the world, one."

Consequently, as yesterday's Commons exchanges showed, many Tory MPs are depressed and angry about what has happened. They lay much of the blame on the Cabinet for the sudden collapse last Friday of the talks with General Motors of the US over BL's trucks and Land Rover divisions.

The result has been to raise questions not only about the future of BL and the UK commercial vehicles sector, but also about the way Mrs Thatcher runs her Cabinet. Moreover, these questions have arisen just when it seemed that she had bounced back from the traumas of the Westland Helicopters affair in January.

The key to the story is that the outlines of a deal for GM to take over both Leyland Trucks and Land Rover were in place last autumn with the backing of a small group of ministers. They included Mr Norman Tebbit, who switched in September from being Trade and Industry Secretary to become Conservative Party chairman, but, significantly, excluded Lord Whitelaw, the Cabinet's troubleshooter. He did not learn the details until just before they became public.

Partly because of GM's slow decision-making, the talks became tangled up with the Westland affair and then the furore and *volte-face* over the talks with Ford about taking over Austin Rover, BL's volume-car subsidiary. Both events touched sensitive patriotic nerves and led to the emergence of new potential bidders for Leyland Trucks and Land Rover.

Since early February, the Government has been in effect been trying to renegotiate the deal with GM to provide what one critic has called a Union Jack fig leaf.

At the same time, the Cabinet itself became edgy in the wake of the Westland and Austin Rover rows. One sign was the last-minute turnround over the sale of the state-owned Vickers shipyard. Ministers were also well aware of the vocal opposition to a GM deal from Mr Edward Heath, the former Conservative Prime Minister, and Mr Michael Heseltine, who resigned as Defence Secretary over the Westland affair.

There was also opposition from a small, though active, group of Tory MPs in the West Midlands – where Land Rover is based – as well as the broader doubts of many more backbenchers in view of the emotional pull of the "Keep Land Rover British" campaign.

Mrs Thatcher agreed to set up a special Cabinet committee on BL. It included both supporters of the deal such as Mr Nicholas Ridley, the Transport Secretary, Mr Nigel Lawson, Chancellor of the Exchequer, and herself; opponents of the sale of Land Rover to GM, notably Midlands ministers such as Mr Peter Walker, the Energy Secretary, and Mr Norman Fowler, the Social Services Secretary; and sceptics such as Lord Whitelaw and Mr John Biffen, leader of the Commons.

The committee was faced with a number of conflicting goals: the long-standing aim of privatising BL; the need to reorganise the lossmaking UK truck industry – including *GM's Bedford subsidiary as well as* BL's division; and the growing pressure to retain a British element in Land Rover.

Mr Channon tried to obtain a compromise. By last Thursday, he had given the impression to many ministers on the committee, and to GM itself, that a deal would be done over the weekend and announced to the Commons yesterday.

Then, to the surprise of several ministers, there was a sudden collapse of the talks on Friday. GM has blamed the Government and vice versa.

The two positions may in practice have been irreconcilable but that does not explain the apparent shift in the Government's approach, taken without discussion by the BL committee. After all, the scale of the likely backbench rebellion, perhaps 40 to 50 MPs at most, was already well known and could have been ridden out, albeit with some temporary embarrassment.

A crucial role seems to have been played by Mr Tebbit, changing his earlier position to persuade Mrs Thatcher that the Government should take a tough line with GM. Backbench pressure may have been part of the story but there are also unconfirmed reports that one Cabinet minister, possibly Mr Walker, might have resigned if the GM deal had gone through.

In the event, the Government's bluff failed and GM would not continue the talks, as Mr Channon had to admit yesterday.

The result has been to leave the Cabinet looking muddled and without a clear policy. Tory MPs are divided on the issue and yesterday several who had loyally supported the talks so far expressed concern at the implications for future investment and jobs in Britain.

The political implications are more complicated. Although both ministers and Tory backbenchers yesterday put the blame on Labour jingoism, that is an unsatisfactory explanation. Much of the flag-waving was done by Tories and it was the Government's new approach on Friday that led to the end of talks.

In the Midlands itself, the continuation of uncertainty for at least another month or two may damage the Government and be reflected in the local elections.

The whole episode gives the impression of a government that, at the top, has lost its political feel and grip. There are suggestions around the Whitehall circuit that Mrs Thatcher needs a break.

Company Notices

CITY OF TURIN

US$10,000,000 9% Bonds 1991

S. G. WARBURG & CO. LTD. announce that Bonds for the nominal amount of US$500,000 have been drawn for the redemption instalment due 1st May, 1986.

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3	12	39	75	96	107	121	141	154	183
199	211	223	296	340	353	385	416	476	505
544	570	596	633	645	663	673	686	696	711
745	756	775	789	822	844	859	872	893	893
942	980	1009	1036	1091	1134	1161	1189	1216	1269
1279	1300	1312	1333	1364	1406	1440	1463	1481	1499
1611	1630	1629	1642	1654	1695	1721	1746	1772	1783
1792	1819	1874	1892	1909	1920	1976	1987	2066	2121
2147	2159	2252	2267	2285	2314	2340	2370	2449	2480
2495	2530	2563	2592	2616	2640	2687	2700	2711	2730
2745	2766	2775	2790	2803	2849	2856	2903	2911	2933
2971	3109	3124	3156	3176	3300	3251	3291	3284	3283
3336	3352	3391	3401	3411	3426	3434	3486	3519	3619
3571	3676	3687	3724	3760	3811	3828	3843	3880	3887
3890	3903	3915	3924	3935	3949	3981	3971	3983	3994
4008	4018	4029	4075	4087	4202	4241	4289	4300	4341
4351	4365	4374	4387	4399	4413	4423	4432	4446	4455
4479	4511	4534	4544	4556	4602	4639	4651	4681	4700
4790	4830	4901	4926	4939	4947	4960	4974	4985	4994
5024	5036	5066	5076	5120	5133	5194	5223	5234	5249
5263	5274	5284	5303	5314	5332	5395	5388	5407	5420
5440	5451	5464	5473	5494	5566	5591	5602	5613	5625
5636	5653	5672	5698	5706	5721	5730	5743	5754	5765
5776	5790	5814	5827	5840	5850	5864	5901	5915	5924
5936	5950	5960	5974	5984	5998	6011	6021	6032	6046
6066	6079	6091	6102	6112	6126	6136	6147	6166	6181
6228	6318	6346	6372	6395	6404	6414	6430	6453	6481
6556	6565	6576	6600	6606	6619	6633	6663	6674	6756
6889	6914	6936	6949	6972	7003	7023	7096	7109	7126
7135	7162	7171	7190	7203	7218	7227	7235	7249	7261
7271	7282	7344	7354	7365	7453	7863	7876	7887	7896
7909	7923	7930	7942	7953	7964	7975	7986	8000	8009
8019	8032	8041	8053	8063	8074	8088	8100	8106	8120
8131	8140	8152	8162	8174	8184	8196	8206	8219	8230
8239	8251	8263	8272	8284	8296	8306	8316	8329	8339
8351	8360	8372	8383	8392	8404	8415	8429	8436	8449
8461	8472	8482	8493	8504	8515	8526	8536	8549	8560
8571	8581	8592	8604	8613	8626	8636	8647	8659	8670
8681	8691	8702	8713	8726	8734	8746	8756	8770	8779
8790	8802	8812	8824	8834	8846	8859	8866	8879	8890
8901	8911	8924	8933	8943	8954	8966	8980	8987	9000
9011	9023	9032	9044	9055	9066	9076	9087	9099	9111
9122	9131	9144	9154	9164	9176	9186	9199	9210	9221
9231	9241	9253	9264	9275	9285	9295	9309	9321	9329
9341	9352	9363	9374	9384	9396	9409	9416	9429	9440
9453	9462	9473	9485	9493	9506	9520	9527	9539	9552
9561	9573	9583	9593	9606	9619	9626	9636	9651	9661
9671	9683	9695	9705	9718	9725	9736	9751	9759	9771
9763	9790	9804	9814	9826	9834	9849	9859	9870	9881
9891	9903	9914	9923	9934	9948	9960	9969	9981	9993

On 1st May, 1986 there will become due and payable upon each Bond drawn for redemption, the principal amount thereof, together with accrued interest to said date at the office of:—

S. G. WARBURG & CO. LTD.
33 King William Street, London EC4R 9AS

or with one of the other paying agents named on the Bonds.

Interest will cease to accrue on the Bonds called for redemption on and after 1st May, 1986 and Bonds so presented for payment must have attached all Coupons maturing after that date.

US$2,500,000 nominal Bonds will remain outstanding after 1st May, 1986.

The following Bonds drawn for redemption on the dates stated below have not yet been presented for payment:—

1st May, 1985
2656 2805 4787

1st May, 1984
355

1st May, 1983
2744 2810

N.B. The Bond No. 2780 has become prescribed.

No further payment will be made on this Bond or Coupons therefrom.

33 King William Street, London EC4R 9AS — 26th March, 1986

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NCB aims to draw gas from offshore coalfields

BY MAURICE SAMUELSON

A METHOD of producing gas from large coalfields under the bed of the North Sea is to be developed by the National Coal Board (NCB) in an onshore pilot project to be launched in the English Midlands.

The project, for which the NCB is to seek planning permission, will involve gasification of a 2,000 ft-deep coal seam in Nottinghamshire. Using oil-industry drilling techniques, the NCB will test methods of tapping the energy potential of large reserves of otherwise inaccessible coal under the sea round Britain's coasts.

Mr Ken Moses, NCB technical director, said offshore oil exploration had shown there were "billions" of tonnes of coal in seams up to 70 ft thick that were too far from land to be mined. "This could be the only way for future generations to get at that coal."

The trial, which might cost up to £15m over five years, has the backing and financial support of the European Economic Community.

The NCB plans to extract gas from up to 50,000 tonnes of coal lying in a 6 ft-thick seam beneath a wartime airfield near Newark, Notts.

Underground gasification requires at least two boreholes drilled from the surface and connected inside the seam. Air or another reactant is pumped down one hole to create combustion and gas is removed from the others.

NCB scientists and engineers, using the latest oil-industry techniques, plan to drill a "deviated" borehole from the surface. It would start vertically and curve through 90 degrees to penetrate the coal horizontally for more than 1,000 ft.

Three vertical boreholes would then be connected with the horizontal hole. Gas would be produced by blowing steam down one of the boreholes and the gas would be drawn off through the other two.

Field trials on underground gasification, using different techniques, are also being carried out in the US and Belgium. The NCB says it is important that Britain should have a leading role in such research.

The last trial carried out in Britain was about 30 years ago, when gas produced from a shallow seam was used to produce electrical current.

At the time, gasification also proved practicable in trials in the Soviet Union and US. But all development stopped at the end of the 1950s when the economic incentive was submerged by the cheap oil flooding world markets.

Interest revived in the 1970s and a number of trials have taken place in the US and Western Europe. The NCB's proposals envisage gasification at greater depth and pressure than previously.

Date set for London equities trading by Citicorp offshoot

BY ALEXANDER NICOLL

CITICORP, the largest US bank holding company, said yesterday that a wholly owned subsidiary, Scrimgeour Vickers (Traders), would begin market-making in equities on the London Stock Exchange from next Tuesday.

It will thus become the second US-owned firm to set up as an equity jobber since outsiders were allowed into the exchange from March 1. Merrill Lynch established the first.

Like Merrill and the British securities houses, which include both brokers and jobbers, Citicorp has undertaken to keep the activities of the newly formed jobbing unit separate from those of Scrimgeour Vickers, one of the biggest agency brokers, until the "single-capacity" distinction between jobbers and brokers is abolished on October 27 in the so-called Big Bang.

Citicorp, through its Citicorp Investment Bank unit, will take 100 per cent control of Scrimgeour Vickers in mid-April, thus joining other foreign and British institutions that were allowed to increase their 29.9 per cent holdings in stockbrokers from this month.

The new jobbing firm, with a paid-in capital of £2.5m, will have 11 market-makers, mostly recruited from other firms over the past few months. Mr Fred Pettit, a Citicorp executive who is its chairman, said no transfer fees or "golden hellos" had been paid. The sectors in which it will initially make markets, stores, pharmaceuticals and chemicals, reflect the expertise of the recruits.

Mr Pettit said he did not expect Scrimgeour Vickers (Traders) to be a significant jobbing force before October. Citicorp had established it in advance of the Big Bang so as to be ready for the advent of negotiated commissions.

He forecast that London share-trading volume, already running at record levels, would double or triple over the next two years as commissions and stamp duty were reduced, and with low inflation and interest rates contributing to a healthy climate for equities.

The increase would be accompanied by a change in the relationship between investing institutions and brokers, Mr Pettit said. Instead of dealing through brokers as agents, investors were likely to set up their own dealing teams and trade directly with market-makers. To meet the changing requirements of customers, it was necessary for leading brokers to acquire market-making capacity.

Radiation safety selection method backed

By David Fishlock, Science Editor

A NEW way of picking the best method for protecting people from radiation, particularly medical uses and natural leaks, has been approved by the British Government's watchdogs on public exposure to radiation.

The technique might prove important for medical practice, where the watchdogs believe there are big opportunities for reducing public exposure.

For the nuclear industry, opportunities are much less, says the National Radiological Protection Board in guidelines published today.

The board, which reports to the Department of Health, recommends the use of cost-benefit analysis as a way towards better value for money in protecting people.

It proposes a simple scheme for applying cost-benefit analyses to radiation sources

The technique was used at a public inquiry to help identify the relative merits of various additional layers of protection proposed for workers in the Sizewell B power station in Suffolk.

Exchange may disclose option holders' identity

BY ALEXANDER NICOLL

COMPANIES listed on the London Stock Exchange's traded options market will have the right to know the identity of holders of large options positions under a measure announced yesterday by the exchange.

The decision could protect companies from surreptitious attempts to build up share stakes through use of options.

The stock exchange also said there would no longer be a limit on the number of options which could be outstanding on a stock at any time. This has been limited to "calls" or "puts" representing 10 per cent of issued equity capital since the options market was launched in 1978. "Call" options provide the right to buy shares, and "puts" the right to sell them.

In practice, the limit has never been approached. Options currently outstanding on the 36 listed stocks represent between 1 and 5 per cent of their equity.

Volume on the options market has recently surged to peaks about three times the trading levels of six months ago, and the exchange decided to remove the 10 per cent bar in case the limits were approached. It says other options exchanges do not have such a limit. Individual positions will still be restricted to 5,000 contracts, representing the right to trade 5m underlying shares.

THE ARTS

Television/Christopher Dunkley

Beautiful bodies begin at forty

Temptresses three: Kate O'Mara, Sheila Gish (with Denis Lawson) and Stephanie Powers

Suppose, just for a moment, that 18 men had been killed in February as a direct result of conditions in the nuclear power industry, and that five more had died in precisely similar circumstances last Thursday. How often would this have been mentioned on television? Five times a day on average? Ten? Would we have been promised four current affairs specials, or six, or eight? How many agonising "access" programmes would have been made by groups using archive film of Hiroshima to campaign for the closure of nuclear power stations (like using the mustard gas of World War I to campaign for the abolition of North Sea Gas): four? Six? So far as I know, nobody has died this month, or this year, as a direct result of conditions in the nuclear power industry, but 23 have been killed as a direct result of conditions in the fishing industry: 18 in February and five last Thursday. How many times have you noticed this being mentioned on television; how many current affairs specials and agonising access programmes have there been? None to my knowledge. Of course the sea is very obvious whereas radioactivity is invisible.

The use of canned laughter by producers whose shows are supposed to be funny, but who are terrified that they may not seem so to the audience, has moved beyond embarrassment and become positively counter productive.

Producers sometimes declare with a spurious show of indignation that nowadays the laughter we hear is that of genuine studio audiences, and that canned laughter in the sense of a recording off a shelf is a thing of the past. However, I have never heard a single producer deny manipulating and *enhancing recordings of studio laughter.* Thus things have not really changed at all: the producer is still creating whatever quality and volume of laughter he wants. But it can go horribly wrong. In last week's *Karen Kay* on BBC2, produced and directed by Dave Perrottet, the eponymous star performed one *series of gags in a gangway* flanked on both sides by the audience. Every punchline was met by the standard explosion of maniacal mirth on the soundtrack which producers need for reassurance. Yet any viewer with more than half an eye could see that the members of the audience were, at best, smiling and in many cases poker-faced.

*

Time was when female sex symbols were mostly young or even very young. When Brigitte Bardot made *And God Created Woman* she was 23. Rita Hayworth was 21 when she appeared in *Only Angels Have Wings, Sophia Loren* 19 in *The Sign Of Venus*, and Jean Harlow 18 in *The Love Parade*. Today television has largely taken over from cinema in the creation of cultural symbols, and now the fashionable age for sex goddesses seems to be 40 or 50. If you are going to attract your stud in a black lace wasple it is no good any longer being a svelte teenager, you have to be a mature woman. Lucky men in the past week have included Barry Bostwick who, in *Deceptions* on BBC1, was required to peel the black stockings from the thighs of Stefanie Powers (44) and Denis Lawson who may well have been experiencing *That Uncertain Feeling* (BBC2) when he found himself flat on his back on the floor with Sheila Gish—decidedly good looking but no teenager—astride him as she ripped off her fifties cocktail dress to reveal the complete set of little black odds and ends. It seems to be yet another demonstration of the unfair way in which the generation who had such a good time as teenagers in the sixties, instead of being overtaken by fresh generations of young trend-setters, have remained the centre of attention. If the American glitz series offer any guide then there may be no limit: Britain's Stephanie Beacham (37) and Kate O'Mara (47) have now been drafted into *The Colbys* and *Dynasty* respectively to challenge the supremacy of Joan Collins who, at 53, seems not the least bit inclined to relinquish her titles as Empress of Cleavage and Queen of the Black Suspender.

*

Tonight's *Party Political Broadcast* is the first for which I have ever received, let alone accepted, a preview invitation. However, since it was for the SDP, and their last effort with John Cleese created such a stir, it seemed only right to go. It *is astonishing that after* decades of PPBs that were so tedious and/or unconvincing that we all switched off, the SDP has managed in one go to change the way we feel about the entire genre, though the SDP has, of course, proved from its very beginning to be adept at using television. Some people consider such expertise deeply suspicious: Kathy Myers, "Media editor" of *London's* left-wing listings magazine *City Limits* warned darkly on a recent *Saturday Review* on BBC2 that success in politics would go in future to "those with access to media skills," for all the world as though that was something new.

*

In these days of international co-production (more about that and its effect upon the quality of programmes in a future column) it is increasingly rare to find any but the most basic of documentaries brought to fruition by a single "auteur." Impressive, then, to see that Channel 4's two-part documentary series *Mysteries of Peru*, which is anything but small or parochial, has been written, produced, directed and narrated by Peter Spry-Leverton who even used his own feet in Episode 1 to show what happens when you break through the surface of the Peruvian desert. This first programme was devoted to the Nazca lines, those vast and ancient geometric designs on the pampa which can be properly appreciated only from an aircraft. The virtue of Spry-Leverton's approach was that instead of setting out to *confirm* one of the many theories explaining the lines (visiting spacemen, astronomical calendar, religious ley lines) he considered all of them and left you with the feeling that there may well have been several reasons for their construction.

*

The answer to the question being asked by BBC-2 on Monday nights—*Joan Rivers: Can We Talk?*—is that we can, of course, but we wonder whether she can. If La Rivers wishes to be accepted in Britain as a professional chat show hostess there are a few basic skills she needs to acquire, starting with the ability to read autocue. It may be acceptable in the USA to make your entrance and promptly start peering away from the camera and down towards the floor in order to read your lines off an idiot board (Bob Hope's continued use of this practice suggests that it is). But in Britain we have come to expect a smidgen more sophistication. Some of our presenters with extensive experience, a fortnight, say, can actually memorise the names of four guests without even an autocue to help. Moreover one or two of them, when wished "a happy New Year" in the middle of March during a phone conversation with the *wife of the American* president, might ask whether Nancy had slipped her trolley. And if recorded months in advance they might have had the professionalism to scrap the item, regardless of the cost in amour propre.

Moon on a Rainbow Shawl

Michael Coveney

The Observer's play competition of 1957 was won by this haunting poetic backyard drama by Errol John. Since its Royal Court production a year later, it has not been seen in this country. Whatever you think of the GLC's farewell philanthropy (a ripe raspberry for the central London roadworks), the black theatre community has been funded to rediscover first C. L. R. James's Caribbean Danton's Death, The Black Jacobins, at Riverside, and now at The Theatre Royal, Stratford East, this fragile piece of immediately post-war atmospherics in Port of Spain.

The immigrant 1970s comedies of Mustapha Matura can now be seen as a half-way house between John and the new hard social drama of Temba, Black Co-Operative and the rest. John's restive Trinidadian bus conductor, escaping to Liverpool with high hopes and disgust at the tension of living like hogs, will probably end up as a Matura buffoon or bully. Our sympathies are complicated by his pastiness to the old grandmother who brought him up and was abandoned in a poorhouse for her pains.

But the emigrating Ephraim is just one piece of the mosaic, living opposite Rosa the waitress whom he leaves behind, pregnant, and the middle-aged couple who have braved out the heat, the poverty and the disappointments. These living conditions have not much changed in the Caribbean; cricket then, as now, was a lunch ticket for young men. Old Charlie, though, blew his Test chances by denouncing the colour bar on tour to Jamaica (he also bemoans the current lack of fast bowlers, a quaint period detail).

Ephraim's other neighbours, the free-loving Mavis (exotically played by Joanne Campbell), entertains Yankee soldiers, teases Ephraim (Tony Armatrading is tense and brooding, but a little too introverted) and manipulates the young girl across the way. The scenes are bathed in snatches of calypso, steel drums and barking dogs, fading snippets of Glenn Miller and Sinatra, hooting owls and sudden storms.

Mr John, returning to direct the play that made his name, orchestrates the action abetted by Felix Davies's sound and Bernard Culshaw's design of romantic shanty town.

A few dead spots and mumbled performances cannot mar the overall impression of a play that deservedly beat *The Sport of My Mad Mother* and *A Resounding Tinkle* into joint third place (the runner-up has sunk without trace). It is poetic, but sparely written, the various life lines tangled carefully around a petty robbery at Old Mack's café. Errol Jones is the broken old cricketer, Barbara Assoon his stoical wife, a character justly described by Tynan as a Negro Anna Magnani. This is period black Synge without the craven indulgences.

Tony Armatrading and Joanne Campbell

The Man of Mode/Warehouse

Martin Hoyle

Their happy *Midsummer Night's Dream* was no flash in the pan. The Cheek by Jowl company consolidate their position as one of our most thoughtful and stylish touring groups with a grave rendering of Etheridge's Restoration mockery that beneath the frills and froth reveals a harsh melancholy, the sadness of a party flagging in the small hours as candles gutter, where the country means boredom and the jibing calls of the rooks, and the town is a treadmill of intrigue, ostentation and artifice.

"I love her—and I cannot tell her," gasps the rake Dorimant, aghast at real feeling. The sex war is cruel and earnest; he fears lowering his defences in case Harriet takes revenge for his wrongs against womankind. He meets his match in the hard little Hampshire heiress; their marriage will be as watchful and pragmatic as the mating of cats.

Not that Declan Donnellan's production lacks humour. The man of mode himself, Sir Fopling Flutter, is given a fleeting look of Dora Bryan in the bediamond shape of David Gillespie (a tough, faintly menacing little Puck in *Dream*), always beamingly a few seconds behind everyone else when it comes to keeping up with the wit. The actors sit upstage when not performing, and applaud their colleagues—though making outraged *moues* of disdain at the audience if we attempt to do the same. Both the prologue and the cast's return after the interval display a cool, hard-faced gathering whose stony superciliousness is relieved only by hostile laughter.

This sums up the loveless world where such isolated figures as Sally Greenwood's Emilia stand up for decency, much as the *beautés gens* represent reasonableness among Molière's extremists. Martin Turner's Dorimant rightly makes no compromise with modern sensibilities; Anne White's abandoned Mrs Lovett is a beautifully controlled portrait of doubt, jealousy and purring fury; and Colin Wakefield switches from genial old father to faustist in the wings when music is required. The production has more impact than the RSC version of over a dozen years ago, though I do recall Frances de la Tour and Vivien Merchant making more of the sexual innuendoes—those apricots that Bellinda craves should be as redolent of impropriety as Horner's china in *The Country Wife*. Otherwise, great style, integrity and a powerful sense of moral purpose: mercifully little flouncing and much clear-eyed judgment, which is how Restoration comedy should be played.

William Chubb, David Gillespie and Martin Turner

Tennstedt/Festival Hall

Paul Driver

Klaus Tennstedt conducted the London Philharmonic at the Festival Hall on Sunday night in two works: Carl Orff's *Catulli Carmina* and Stravinsky's 1919 *Firebird* suite. For the first of these only four pianists and percussion group were required as orchestra. The work—the second in Orff's trilogy of scenic, stageable cantatas, *Trionfo di Afrodite* (the first was *Carmina Burana*) uses unaccompanied chorus and soloists for its central part divided into three acts; the instruments are only employed in a Prologue and Epilogue which offer a frenzied pastiche of the style of Stravinsky's *Les Noces*.

The *cantata* is a dramatisation of the love-life of the Roman poet Catullus, and a setting of some of his most famous love-poems ("Odi et amo," "Vivamus, mea Lesbia," etc). The German composer writing in 1943 has, however, transformed the poet's complex, ironic and unashamed presentation of his subject into a mere celebration of the bounding body, an ode to hygienic, callisthenic and no doubt Aryan values. The insights specifically offered by the music into the verse are null—the music, with its driving rhythms, simplified harmonies, coarse-grained texture, and loud insistence, is more than a match for refined verse; and Orff, like a heavy-weight in a boxing ring, simply wipes the floor with Catullus.

I should be surprised and sorry to find that Tennstedt has a particular affiliation with the work. But why else was it programmed? The performance was certainly energetic—all the thuds were in the right place, and the chorus was positively spitting with enthusiasm, though the tenor soloist David Rendall had to be summoned to attention by an audible finger-click from the conductor at one point. The second act—a night-scene—was the only instance of affecting music in the score.

Soprano Janet Perry floated an elegant descant ("Dormi, dormi, dormi ancora") over the male humming chorus, and the ladies achieved glistening close-harmony. (Miss Perry's voice, by the way, bears a striking tonal resemblance to Callas's). But this was slender compensation for the vacuousness and bombast of the rest. Stravinsky's *Firebird*, given an intense, careful and atmospheric performance in the second half, not only soothed the troubled ear with its natural musical flow, demonstrated what dynamic rhythm is *really* about.

The Apostles/Festival Hall

Andrew Clements

Delius once observed that if he could, Elgar would have set the whole Bible to music. There are moments in *The Apostles* when it seems as if he was trying to do just that. On Monday the first part of Elgar's incomplete New Testament trilogy was included in the Philharmonia's Elgar and Britten series. A more enterprising choice than the usual *Dream of Gerontius*, certainly; but by no means a more satisfying one.

For *The Apostles* demonstrates how literally worshipful Elgar's Christianity could be, and how that prosaic quality was almost bound to stifle the vitality of his trilogy. It makes his choice of Newman's melodramatic text for *Gerontius* seem extremely fortuitous, for where that work gains pace and theatricality from the structure of the poems, *The Apostles* flounders upon its clotted and musically intractable New Testament prose. There are innumerable lines that should never have been brought within striking distance of an English oratorio, and the music only rarely manages to transcend them. On those occasions the score commands attention by its reliance upon tried and tested gestures—from *Gerontius* itself, and *right back to late Wagner*. But of the new kind of dramatised tableaux that Elgar was attempting to create there is relatively little sense.

Any performance has to struggle hard to combat the worthy intentions it inevitably imposes. On this occasion Andrew Davis and his soloists, together with the Philharmonia Orchestra and Chorus, did not really succeed in blowing away the cobwebs. The evening lacked punch and direction; every chorus and solo seemed to ooze piety. I suspect that the problem of this work is fundamentally intractable, but even so, a good deal could have been done to bring its more vivid moments to life. Resonances of the worst aspects of the English oratorio tradition were hard to banish: solemn tempi and stolid phrasing, soloists who ladle the sincerity like syrup onto their singing. Of the six soloists the most convincing were the mezzo soprano Alfreda Hodgson, the tenor Maldwyn Davies, and the baritones Stephen Roberts and Jonathan Summers. Perhaps, though, a solid well sung *Gerontius* would have fitted better into the series after all.

Art courses at Dulwich

Dulwich Picture Gallery, which has one of the finest select collections of Old Master paintings in the country, is to hold two five day non-residential courses on the conservation, care and appreciation of Old Masters from June 16-June 20, and from June 23-27.

The cost is £280, and all proceeds will go to the Dulwich Picture Gallery Appeal Fund.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Mar 21-Mar 27

Theatre

NETHERLANDS

Amsterdam, Bellevue Theatre. English Speaking Theatre of Amsterdam with Orton's Entertaining Mr Sloane directed by Grant Coburn. All week except Mon, matinee Sun (24 7248).

LONDON

The Scarlet Pimpernel (Her Majesty's): Donald Sinden in resplendent plummy-voiced form as Baroness Orczy's one-man resistance movement to the French Revolution. Opera director Nicholas Hytner's efficient and sparkish production has smoke, tumbrils, rat stew and rolling heads. (930 4025).

As You Like It *(Barbican): Much im*proved since last year's Stratford-upon-Avon season, Adrian Noble's loosely Edwardian production now emerges as a secret-garden adventure where Rosalind (Juliet Stevenson) has the sisterly devotion of Celia (Fiona Shaw) threatened by Orlando (Hilton McRae). A superb Jaques from Alan Rickman. The RSC Barbican repertoire also includes a *fine* Othello with Ben Kingsley and, in The Pit, Christopher Hampton's absolutely breathtaking, unmissable version of Les Liaisons Dangereuses (628 8795).

Noises Off (Savoy): The funniest play for years in London, now with an improved third act. Michael Blakemore's brilliant direction of backstage shenanigans on tour with a third-rate farce is a key factor. (836 8888).

Starlight Express (Apollo Victoria): Andrew Lloyd Webber's rollerskating folly has 10 minutes of Spielberg movie magic, an exciting first half and a dwindling reliance on indiscriminate rushing around. Disneyland, Star Wars and Cats are all influences. Pastiche score nods towards rock, country and hot gospel. No child is known to have asked for his money back. (834 6184).

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. (836 8108).

Guys and Dolls (Prince of Wales): The 1982 National Theatre production. Richard Eyre's production and John Gunter's affectionately lavish designs complement this most joyful and literate of musicals, a fitting tribute to the recently deceased co-librettist Abe Burrows (930 8681).

Torch Song Trilogy (Albery): Antony Sher plays Harvey Fierstein's four-hour triptych of the life and loves of a drag queen fighting for emotional and domestic stability. Truthful playing has the effect of cruelly exposing Fierstein's tackily uneven writing. (836 3878).

Interpreters (Queen's): Love among the diplomats, according to Ronald Harwood has a superb role for the matchless Maggie Smith renewing a cross-cultural affair with Edward Fox in the shadow of a summit between The Soviet Union and Britain. Fluent direction by Peter Yates of the West End's best new play of the year. (734 1166).

Are You Lonesome Tonight? (Phoenix): More musical hagiography with Alan Bleasdale's Elvis Presley show using *flashback* and excellent live recreations of the rock and roll *hits to explain how Martin Shaw's* magnificently wrecked and flabby King in crushed velvet jumpsuit has reached this pretty pass. Exploitative, but not strictly for tourists. (836 2294).

Les Misérables (Palace): Notably well sung and spectacularly produced rock opera from the Nickleby and Cats team of Trevor Nunn, designer John Napier and lighting man David Hersey, Colm Wilkinson superb as Jean Valjean. A melodramatic distillation of Hugo, and none the worse for that. The French score is rousingly melodic, with serviceable new lyrics from Herbert Kretzmer. (437 5834)

Blithe Spirit (Vaudeville): Excellent revival of Coward's eternal triangle comedy, notably well costumed and lit, with Jane Asher and Joanna Lumley fleshy and ethereal foils to Simon Cadell's sexually threatened suave novelist. Marcia Warren is a fine Arcati, a serious amateur in woollens and psychic research from South London. (836 9987).

NEW YORK

Cats (Winter Garden): Still a sellout, *Trevor Nunn's production of T. S.* Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle *Off To Buffalo* with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

Brighton Beach Memoirs *(46th St):* The first instalment of Neil Simon's mix of memories and jokes focuses on a Depression-era Jewish household where young Eugene falls awkwardly in love with his cousin. (221 1211).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

Big River (O'Neill): Roger Miller's music rescues this sedentary version of Huck Finn's adventures down the Mississippi, which walked off with many 1985 Tony awards almost by default. (246 0220).

Philadelphia Story *(Arena):* Ellnor Renfield, who last directed Peter Nichols's Passion Play here, takes on the Philip Barry American classic about a headstrong debutante whose society wedding draws the press to gawk. (488 3300).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture *the feel of the sweet and hilar*ious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth): In moving to Broadway, Herb Gardner's touching, funny and invigorating play about two oldsters retains its stars, Judd Hirsch and Cleavon Little, who almost conquer the world when they think they are just bickering with each other. (239 6200).

Saleroom/Annalena McAfee

Nothing left unsold

A gold and diamond encrusted snuff box, presented by Queen Victoria to the explorer Henry Stanley in recognition of his work in finding Dr David Livingstone, was sold at Christie's in London for £102,600. The buyer was the American millionaire publisher Malcolm Forbes, who plans to display the box in a museum.

It was part of a collection of orders, medals, and gifts conferred on Stanley sold on behalf of the explorer's grandson. A total of £188,751 was realised—more than double the estimate—and nothing was left unsold.

The dealers Armitage paid £25,920 for a miniature of Queen Victoria, also presented to Stanley by the Queen herself. A gold cased watch, dated 1885, was sold for £12,960 to an anonymous buyer.

Phillips sale of modern British paintings yesterday realised record prices for many artists. An unnamed telephone bidder paid £60,000 for a painting by Stanhope Forbes of children with a horse; the artist's previous record was £53,000.

A painting by Sir William Russell Flint, *The Judgment of Paris*, was sold for the record price of £32,000 to Oscar and Peter Johnson. The painting had previously been in the collection of William Randolph Hearst, the American newspaper owner.

The Royal Institution of Cornwall paid £24,000, another artist's record, for a painting of Lamorna Cove in Cornwall by Samuel John Lamorna Birch. The painting will go on display at Truro's county museum.

Dame Laura Knight's painting of the Folies Bergere went to R. and J. Jones, London dealers, for £30,000 — £10,000 more than its estimated price. The sale totalled £450,000 with 12 per cent bought in.

Christie's morning sale of impressionist and modern paintings realised a total of £724,313 with 15 per cent bought in. The top lot was Utrillo's oil painting of L'Eglise de St Germain-des-Pres, which fetched £62,640 — more than double its estimate. The buyer was the Japanese dealer Tamenaga. The London dealers Frost and Reed paid £51,840 for Boudin's *Avant Port de Trouville*, which had been estimated at between £25,000 and £30,000.

A still life with grapes and peaches by Henri Fantin-Latour was bought by a Swiss dealer for £49,680. An anonymous buyer paid £41,040 for Theo van Rysselberghe's oil painting *Nu allongé*.

Sotheby's morning sale of scientific instruments from the Arthur Frank Collection totalled £124,377 with 7.7 per cent bought in. A rare 1770 steering compass was bought for £7,150 by an American private buyer. The same buyer paid £5,280 for a 1790 brass sextant.

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An unwise encounter

THE MILITARY conflict between Libya and the US in the Gulf of Sirte reflects credit on neither country. By every standard of *civilised* international conduct, the regime of Colonel Gadaffi is clearly in the wrong. But this does not mean that the US emerges with an enhanced reputation. The world expects a higher standard of calm maturity from a superpower which is also a democratic, pluralistic state, than it does from a regime which, in too many respects, has consistently chosen to stand beyond the pale of international respectability.

Libya's claim to the Gulf of Sirte as Libyan territorial waters is not recognised internationally. Even if it had been, there would be no excuse for launching missiles against the American carrier group in the Gulf. Questions of national and international waters are properly dealt with by diplomacy and negotiation; in the absence of diplomacy and negotiation, it is both provocative and imprudent to assert absolute rights whose value is solely symbolic, and which cannot, in the last resort, be enforced militarily.

Washington is, of course, within its legal rights to exercise its navy in what it and most other countries recognise as international waters. It is also arguable that there is a positive case for asserting those rights by carrying out an exercise in defiance of Libyan claims to the contrary. There will be many who will secretly congratulate the Americans for giving Colonel Gadaffi a bloody nose.

Inference

Yet at the end of the day, none of these considerations, however understandable they may be taken singly, in legal or emotional terms, exonerate the US *administration from* the charge of having acted imprudently and provocatively. And however gratifying it may be to have an excuse for using American military might against Libya, it is unlikely in the extreme that the net effect of the encounter will prove beneficial for the interests of the US or for those of its Western friends.

The last such military engagement in the Gulf of Sirte took place five years ago, when Libyan fighters intercepted US aircraft and were shot down for their pains. Since then, the US has exercised south of the so-called "Line of Death" on *several* occasions without precipitating military conflict. The difference this time is that the US Administration took care to give maximum advance publicity to its intentions, to the point where it is impossible to avoid the inference that there was a deliberate *intention* to provoke a clash of arms, in which the US would inevitably come out on top.

It is easy to sympathise with the Reagan Administration's long pent-up rage at Colonel Gadaffi and at his sponsorship of international terrorism. It is difficult to see how a military engagement in the Gulf of Sirte can possibly be an appropriate response. There is no easy way, and there is certainly no easy military way, of countering terrorism. Indeed, the most recent articulations of Washington's anti-terrorist policy downplay the utility of force and emphasise methods resting on a firm foundation of legality. There is no reason to suppose that Libya will be in any way deterred from terrorism by the sinking of some patrol boats; on the contrary, it may even be provoked into further barbarities.

Consequences

On the other hand, there is nothing so threatening to western interests in Gadaffi's faintly ridiculous Line of Death, as to require Washington to provoke a military exchange. The use of military force should be commensurate with the interests at stake. If it were really essential for the vital interests of the West that the US navy should operate in the Gulf of Sirte, there is no doubt that it could do so at any moment, regardless of Colonel Gadaffi; as indeed it has done in the past. In current circumstances, the *Line of Death* is an irritating vanity; it is not a threat to the vital western interests.

The immediate consequences of the incident will be to unite behind Libya even those Arab countries which normally deplore its behaviour; to revive European misgivings about Washington's penchant for the inappropriate use of force and possibly, to stimulate more Libyan bombings and murders. This seems a heavy price to pay for a temporary gratification.

Cracked, but not broken

BRITAIN'S Social Democratic Party was founded five years ago today. Mr Roy Jenkins, its original begetter, said that it was out to break the mould of *British* politics. How far has it succeeded?

The answer must be only partially. The party has already had an eventful history—some spectacular by-election successes at the start, the formation of the Alliance with the Liberals, an early challenge to Mr Jenkins's leadership by Dr David Owen, and then the *relatively* poor showing in terms of seats in the general election of 1983.

Since then Dr Owen as the new leader has set the party on a more market-oriented course and established rough parity with the Liberals as an organisation. The inter-Alliance quarrels—for example, over the allocation of *constituencies—have* more or less ceased.

Breaking the *mould*, however, is another matter. The SDP when it was founded was composed of two main elements: those Labour Party politicians and supporters who preferred the tradition of Hugh Gaitskell to the activities of Mr Tony *Benn or even* Mr *Michael Foot*, and a group of people previously outside of politics who would refer to themselves as political virgins at the party's first conferences. It was enough to establish an identity and to get the show on the road, but not enough to *maintain* the early momentum.

One of the problems of the SDP is that political circumstances have gone on changing. The break with the Labour Party was never a clean one. There were some social democrats with small letters who remained inside the Labour Party while Dr Owen, Mrs Shirley Williams and Mr William Rodgers went off to pastures new.

Mr Denis Healey is the most conspicuous example, but there are others. On the present Labour front bench Mr John Smith, the shadow Trade and Industry Secretary, sounds quite as much a social democrat as Dr Owen. And when Mr Neil Kinnock succeeded Mr Foot as leader, Labour developed a more youthful and modernising image. The mould had been cracked, but not necessarily beyond repair.

The formation of the SDP also strengthened the position of the Conservatives, at least in the medium term. Under the British electoral system of winner takes all, it is an invaluable asset for the *ruling* party to have two oppositions. At the last general election the aggregate vote of the opposition parties was around 60 per cent. Mrs Thatcher won an emphatic majority in the House *of* Commons with around 40 per cent.

The SDP's response to that, like that of the *Liberals* before them, is that it proves the case for proportional representation. Yet the trouble with that argument is that only Parliament can introduce it and the big parties have shown themselves singularly reluctant to do so.

In theory, the opposition parties could unite to seek to *defeat* the *Conservatives together*. Such, however, is the legacy of personal bitterness between the SDP and the Labour Party that the chances of *even* a tactical alliance are remote.

It looks therefore as if British politics are stuck more or less where they are until *after the next general election*. There is a fashionable view that it will result in a hung Parliament. If it does, the process of realignment will get under way again, since there will have to be alliances and cross-party deals to produce an *administration* capable of governing.

Third victory

Yet the view is based largely on extrapolations of by-elections and opinion polls and may include a good deal of wishful thinking. It is at least worth considering the possibility that *the Conservatives will win* a third successive victory outright, keeping them in power until the 1990s.

In that event, the SDP and the Liberals would almost certainly have to form the single party that they have understandably refrained from doing so far. There might even be more converts from Labour *after a succession* of defeats or, if the bitterness had subsided, the chance of the opposition parties getting together on a common programme, as did after all happen among the left in France.

All that, however, is for the *future*. *For the present* it is Mrs Thatcher who has the best claim to be breaking the mould by moving the whole of British politics on to new ground.

After the grief, America steps up its search for a scapegoat

By Nancy Dunne in Washington

THE CREW stood at silent attention as a naval salvage ship pulled into port in the dead of night. The USS Preserver, flanked by two coast guard vessels, docked at a Navy Pier in Port Canaveral on March 12 to transfer to a waiting ambulance the remains of the seven astronauts who died in the explosion of the space shuttle Challenger.

The grim scene was played out well away from the television cameras which recorded—over and over—the horrifying spectacle of the Challenger's last launch, its sickening plunge into the Atlantic, the grieving nation and the dramatic hearings of the Presidential commission investigating the accident. Clearly Nasa, the *indominatable icon of space*, has had more publicity than it can stand.

Always proud of its accessibility, the space agency has turned inward, hoping to repair a series of gaping wounds of which the loss of seven with "the right stuff" is only one.

Bitterness about critical press coverage emerged on the agency's internal television network when a senior official complained "We're under a microscope where every move *is examined, second guessed*." The front page articles will continue, he said, "but we don't have to accept them as the means by which we communicate within the Nasa family."

While the shuttle disaster has indeed remained front page material, most of the news has emanated from unnamed sources, the commission or Congress, with Nasa showing an uncharacteristic reluctance to release substantive information.

The agency—still leaderless until Mr James Fletcher, a former administrator, returns to take the helm—is now torn with controversy and dissent. It was five weeks before the 26 members of the astronaut corps were allowed to speak. When they did, they expressed anger and distrust and demanded a more powerful role in the management of the shuttle programme.

Dr Sally Ride, the first woman astronaut and a member of the presidential commission, said neither she nor anyone in her office would fly again until safety issues were resolved. Mr John Young, the chief astronaut, who once walked on the moon, issued a stinging memorandum complaining that compromises on shuttle safety proved that "there are some very lucky people around here."

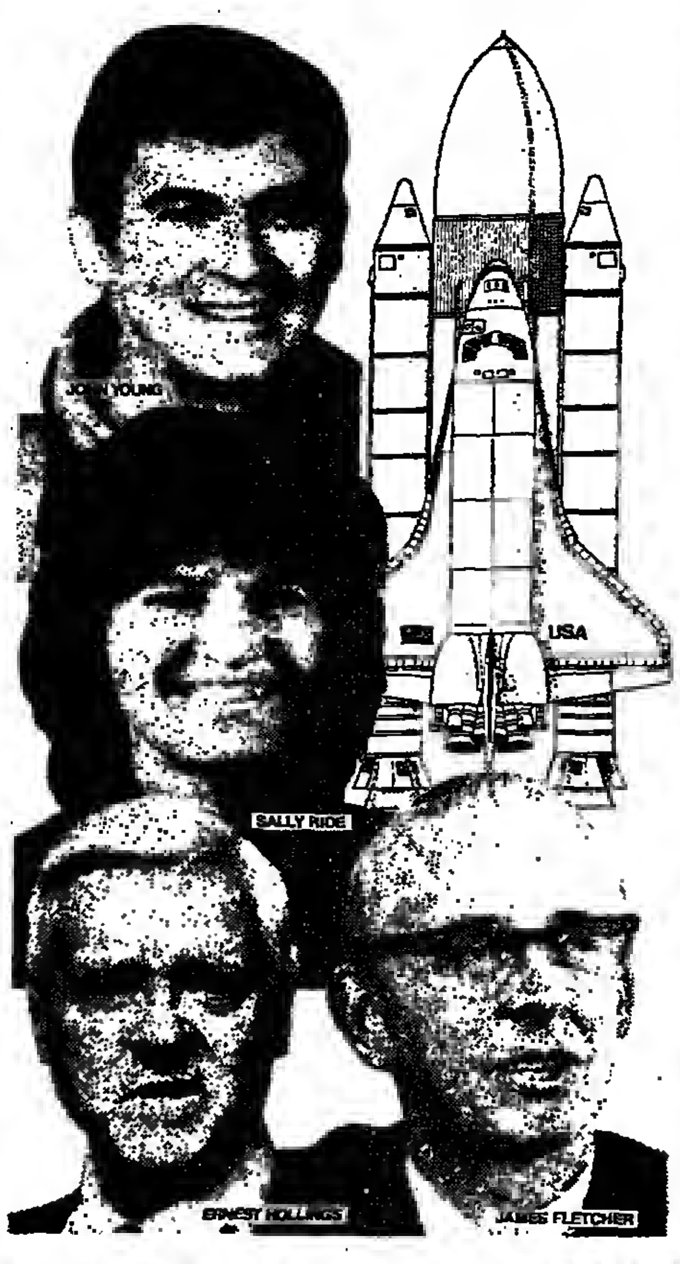
Nasa, he said, had put "launch schedule pressure" above lives. He included an "awesome" list of safety-related systems which, *he said, must be fixed before* another launch.

Although Rear Admiral Richard Truly, the newly-named Associate Administrator for *Space Flight*, supported Mr Young's view, others are retaliating with criticism of their own. Col. Richard Griffin, head of the Air Force's second space wing, *made public a letter he wrote to* Young accusing him of taking "a cheap shot."

"You criticising anyone for 'pressure' is ludicrous when the primary axiom in the astronaut's office is 'don't cross John if you want to fly.' That's pressure," he said.

Where there is not rage, there is grief and some officials have talked movingly of living in daily agony *over* the loss of their comrades. It is from this unstable base that the agency must contend with the presidential commission, Congress, and the future of the shuttle programme.

President Ronald Reagan lost little time in removing control of the disaster inquiry from Nasa to a high-powered commission headed by Mr William Rogers a former Secretary of State and Neil Armstrong, the first man to walk on the moon. The commission, with a staff tightly tied to the Administration, seemed to move just as quickly from a pro-Nasa bias to a healthy scepticism.



The panel seemed almost hostile to early testimony from *Mr Richard Cook*, a Nasa budget analyst who last year warned that engineers "held their breath" during shuttle launches because of concerns about the *safety* seals in the booster rockets. Later it emerged that the agency had known for three years that the seals could cause "loss of mission, vehicle and crew."

After focusing on the effects of cold on the vital booster seals and the failure of middle level Nasa officials to warn their superiors of the risks of launching on January 28, Mr Rogers announced that the decision to proceed with the mission "may have been flawed." In a direct affront to the space agency, he asked that top personnel be removed from Nasa's internal investigation.

But worse was to come. At commission hearings late last month, engineers at Morton Thiokol, makers of the rocket boosters, described their opposition the the launch and said they had been overruled by their *management* under pressure from Nasa. They insisted that instead of being asked to prove that it was safe to launch, there was a reversal in the usual process.

Nasa officials said they had followed every safety recommendation in "a responsible manner," but the testimony often strained credibility and comprehension. Why had Mr Lawrence Mulloy, manager of the rocket boosters, ignored the engineers' warnings?

"The logic," he said, "is related to the fect that we have redundancy at *ignition*, that the concern expressed for the cold temperature based on the data, would appear to be for slower seating of the primary *seal, thus more blow-by, in the* worse case condition which could not be quantified, a secondary O ring would seat and seal under worst case conditions."

No "explanation" can obscure the fact that he was quite wrong; the commission is virtually certain that the accident resulted from a failure in the seam of the right rocket booster. *Chairman Rogers* soon concluded publicly that Nasa had abandoned "good judgment and common sense."

The commission, initially charged with reporting to the President within 120 days, seems intent on finishing early. It's members — astronauts, physicists, industry executives —have done most of their own investigating, criss-crossing the country to various Nasa installations.

They have divided themselves into four specialised groups. One is examining the shuttle's design, the second its assembly, the third, planning and pressures on the January 28th mission and the fourth is *analysing* the accident to determine what went wrong.

Congress, meanwhile, has for the most part been content with the commission's work and in a rare show of restraint, the relevant committees have awaited its conclusions before holding their own hearings. But Watergate has not been forgotten and there are those—particularly Democrats—who smell a rat in the persistent rumour of White House pressure to launch on January 28 so the President could mention it in his state-of-the-union message scheduled that night.

Senator Ernest Hollings of South Carolina, the most senior Democrat on the Senate Commerce Committee and a former presidential hopeful, has repeatedly raised questions about White House involvement. Last week he asked the White House to hand over its telephone records for the week before the accident.

In the House, Congressman Edward Markey, chairman of an energy sub-committee, has been capturing headlines with an investigation linking pressures on the Challenger launch with the nuclear risks of two scheduled *missions* in May, when the shuttle would have been flying with plutonium aboard. Last Thursday he made public incomplete telephone logs sent him by a reluctant Mr Graham.

An aide to Mr Markey said that while there was no clear evidence of White House pressure for the launch, much suspicion could be cleared away if the White House released the text of the state-of-the-union message originally scheduled *for delivery*. The telephone logs sent by Nasa were incomplete and re-typed, he said, and he found it "incredible" that Nasa said it needed six more weeks before a *computer search* of long-distance calls could be completed.

Whether or not the Democrats can tie the disaster to a public relations-minded White House, Nasa is still in trouble in Congress, where it has always been a coddled favourite. The agency has been busy revising its future plans, but it has been proved fallible and can no longer expect the automatic acquiescence of its legislative overlords.

Fifteen launches had been planned this year, 19 next and 24 in 1988. Obviously, the scheduling pressures were too great for what must now be regarded as still an experimental machine.

It will be years before the American public takes a shuttle launch as non-news. Nasa can *no longer promise to offer just* another safe, dependable viable transportation system serving et the same time the needs of the military, foreign policy, science and *commerce*. If Nasa is indeed to put safety foremost, Congress cannot expect a profitable shuttle programme in the short-term *future*.

The agency is tentatively scheduling nine shuttle launches starting in February next year. Military missions are expected to dominate between five and *seven of the flights*. Although civilian and scientific payloads are planned, there is no talk of achieving economic self-sufficiency.

It has already been decided that private companies will be encouraged to build expendable launch vehicles in the hope that business going to Europe's Arianne, *to* the Japanese *and* perhaps even the Chinese, can be kept in American hands.

The future of space manufacturing will have to be re-evaluated. Several companies have conducted and planned experiments aboard the *shuttle* and before the accident, it was believed that space manufacturing—of pharmaceuticals, materials processing, industrial products—could become an $8bn business by 1996.

Nasa's emphasis on manned flight, and certainly its policy of flying passengers like teachers, politicians and journalists, will also be re-examined.

The President's request for a manned space station is bound to face opposition in Congress, where expensive new projects in a time of austerity will have to be proved essential. The legislators will also have to examine the claim of many scientists that robot-manned stations can perform as well as those with astronauts aboard and avoid *risking* lives.

More than anything, Nasa will have to determine and fix what went wrong in its management. While the presidential commission *is* not *likely to say* so, the agency's downfall may have been the result of its own spectacular successes.

Mr Cook, the lowly budget analyst whose warning memo was ignored, recently wrote that the *most honest man he* met at the agency was an engineer who had been passed over for promotion because he spoke his mind about why the *rocket booster* could fail.

"Nasa—in its over-confidence, the secretiveness which prevailed behind the public relations facade, its frequent arrogance—has undoubtedly become corrupt, not in any venal sense, but as all bureaucracies become more or less corrupt as they become satisfied with their achievements," he said. "The condition went largely undetected by a press corps that has been won over by the agency's relentless image-making apparatus."

The egency split into those who knew the dangers of the O rings and those who would not listen or even make contingency plans in case of accident, he said.

Ironically, Nasa was even wrong about its disaster forecasts. If the shuttle burst into flames, it was said, the crew would simply vaporise. That is what many preferred to believe, but even that comfort vanished last week when the salvage ship pulled into port with its flag-draped body bags.

THE NASA CRITICS

John Young, chief astronaut: 'There are some very lucky people around here'

Sally Ride, first woman astronaut—will not fly again until safety issues are resolved

Senator Ernest Hollings—alleges White House involvement

Men and Matters

Time well spent for Ivan

He is said to sleep only three hours a night and to be worth about $150m. By some eccounts, Ivan Boesky, the slim, Hollywood-smooth king of Wall Street Arbitrage, makes an average $1,700 an hour through buying shares before they drift upwards in response to bids.

Yesterday, he spent more than $2,000-worth of his time talking to assembled reporters in London about his new book, Merger Mania: Arbitrage: Wall Street's Best-Kept Money-Making Secret. It was a relaxed, low-key, affair with the Detroit delicatessen owner's son instantly dispelling the stories of his ruthless greed and explosive temper with the smiling certitude *of a born-again Reaganite*.

With his huge hands clasping and unclasping, he described how his market opportunism was vital to the health of American capitalism. Well, not quite. "I am not going to say that I'm *responsible* for the economic health of the US — but the arbitrageur certainly does contribute," be said. The explanation, somewhat bafflingly, is that arbitrageurs exchange a market risk for an event risk — the latter being an *assumption* that a takeover will take place.

Once a demon figure to the US business establishment Boesky yesterday had all the hallmarks of e comfortable insider — including the gold watch chain. "The greatest compliment to me was when Chemical Bank started its own arbitrage department. Now virtually all the big banks have them," he said. He hates being called a "raider."

There was one mischievous hint yesterday of a new, even more respectable, career among the ranks of the corporate managers he has so often castigated. "I suppose you could say that you date lots of girls and then one day you marry one."

"This the start of the new repair programme or just a normal Bank Holiday?"

Diet democracy

The ornate lobby of the Senate chamber on Parliament Hill in Ottawa is a strange setting for a hunger strike. But for the past 17 days Canadian Senator Jacques Hebert has made the lobby his home, sustained only *by mineral water* — and the many Canadians who support his protest against the cancellation recently of a government-sponsored youth community service programme.

Well-wishers at the Senator's "camp" have included Pierre Trudeau, the former Prime Minister, who set foot in Parliament last week for the first time since quitting politics *in* 1984.

Hebert, 63, helped start the youth programme, known as Katimavik (Eskimo for "meeting place") 10 years ago. The Government has decided to scrap it as part of an overall austerity drive.

Already sensitive to accusations of being too easily swayed by his critics, Brian Mulroney, the current Premier, has so far turned a deaf ear to Hebert's demands for Katmavik's reinstatement. Newspaper editorials and columnists have flayed the weakening Senator for abusing Canada's democratic institutions. Still, he can take comfort from the fact that a new form of youth employment programme is likely to be unveiled soon.

One wonders if Geoffrey Dickens, the distinctly portly Tory MP for Littleborough and Saddleworth and another politician who has recently been accused of abusing democracy, might not consider hunger-striking in pursuit of *his* "crusades."

Fatal error

Yesterday's announcement that Mr Robert Maxwell, Britain's burliest press baron, is to shift scientific magazine work away from one of his companies, Pergamon Press, to another, the British Printing and Communications *Corporation*, at *least* confirms that BPCC is still in business.

For a moment, earlier this week, it looked like it was touch and go.

A notice from the Companies Registration Office in Cardiff was sent to the London Gazette reporting the winding up of BPCC by the liquidators.

An apology from the reigstrar soon afterwards. It had all been a computer records error, and "corrective measures" have now been taken.

"Nevetheless," says Maxwell, "it was the company equivalent of an individual reading his own obituary notice."

Misfire

And speaking of scientific magazines . . . the disastrous explosion on the space shuttle Challenger has dealt a blow not only to Nasa, the US space agency, but to the plans of Marshall Cavendish, the UK publisher, for a grandiose magazine series on space technology.

The company was all set to launch "Space Frontiers" — a series of part-works which was to feature the shuttle in extolling the values of space exploration—on January 28, the very day that the Challenger blew up. It hed hastily to recall all the copies from the shops

The project went ahead, though limply. Sales for the first three issues were disappointing —not surprisingly, in view of the effect of the explosion on most people's perceptions about the wonders of space technology—and Marshall Cavendish hes just decided to stop publication after the fifth issue.

Who dares win?

Military security has cast its cloud over the Easter Devizes to Westminster canoe race—a 125-mile-long marathon which is regarded as the toughest of its *kind* in the world.

In the past, crews from the crack Special Air Service—the SAS—have entered the race under their own insignia. Now, to preserve anonymity, they will be signing up in the names of the units from which they were recruited *into* the Rambo regiment.

Oddly enough, no SAS crew has won since 1960, and the lest Services victory was in 1974. The four or five SAS *entries* this year will be up against tough competition from the Royal Marine commandoes and the Royal Engineers, but ell three regiments are likely to ship their paddles some time after teams of ameteurs from various civilian clubs.

One other departure from tradition has to be faced in the 1986 race. For the first time since it took over from the old LCC, the Greater London Council—on the day of its abolition —will not be welcoming the *contestants* at the finish by County Hall steps next Monday. Instead, British Telecom and a building contractor will do the honours.

Observer

A book that changed an economist's mind . . .

Alan Budd explains how Alan Walters has altered his view on money supply and the EMS

Roger Taylor

Sir Alan Walters: still an influence on Thatcher

THERE is a large and distinguished group of economists in exile which believes that the management of the British economy has been taken over by barbarians. One of the barbarians has now written a book explaining and defending the government's actions.

Sir Alan Walters was economic adviser to Mrs Thatcher from 1981 to 1983 and he is still believed to influence her. His views, as set down in *Britain's Economic Renaissance**, must therefore be treated seriously. Although it is the book of an insider, it contains no revelations; no doubt the Official Secrets Act has seen to that. As Alan Walters says: "It is neither a diary nor a *dénouement*. It is just a plain old piece of applied economics."

The book is intended to challenge conventional ideas and it succeeds. To illustrate Alan Walters' approach I shall concentrate on three particular questions about economic policy since 1979. The first is, was the government responsible for the severe economic recession of 1980? The second is, should we join the exchange rate mechanism of the European Monetary System? And the *third is, can we claim that the* Conservatives' economic policies have been a success?

The collapse of output, particularly in the manufacturing sector, occurred before Alan Walters came to Number 10. (One is reminded of Sir Donald MacDougall's story of his encounter with Lord Kaldor in the early days of the first Wilson government. "How's it going, Nicky?" "Terrible. I've arrived too late. All the big mistakes have already been made.") Walters argues that the recession cannot have been caused by excessively tight fiscal policy since the tightening did not take place until 1981, shortly before the economy started to recover. However it is possible, he suggests, that the economy was responding (in the opposite way from that usually assumed by the Keynesians) to the *excessively large* budget deficits of earlier years. He bases his argument on the well-established observation that since the war expansionary fiscal policy has been far less effective in raising output in periods of high unemployment than in periods of low unemployment. In what I thought was the most interesting part of the book, he tentatively explains this by changes in "confidence" which in turn he suggests may be related to the size of the budget deficit. If the budget deficit is large, people will fear that any increase in its size will lead to inflation or to a sharp reversal of policy, or both, and attempts to expand demand will fail. Thus fiscal policy became ineffective (and its effects may even have become perverse) after the emergence of large deficits in the mid-1970s at the same time as unemployment continued to rise.

Although tight fiscal policy cannot have caused the recession, Alan Walters admits that tight monetary policy possibly did so. He favours the use of a narrow definition of the money *supply in this context and his* arguments are convincing. However, even though monetary policy, on this definition, was tightened significantly in 1979 and 1980, he argues that it is difficult to accept that it was the main culprit. This is because there was no obvious "*transmission mechanism.*" In particular, even though the tightness of money was probably a major cause of the rise in the exchange rate during 1979 and 1980 there is little evidence that the associated loss of competitiveness significantly affected our trada performance.

All this is true, but the problem in 1980 was not so much that British manufacturers stopped selling goods as that they stopped producing them, and there was a dramatic fall in inventories. Firms cut production because their profits were disastrously squeezed between rapidly rising wages and the restraint on prices caused by the rise in sterling. That leads one to ask why wages rose so quickly. Alan Walters examines the argument that the rise in VAT in the 1979 Budget was to blame, but *dismisses it*. I think be is wrong. Irrational though it may have been, I believe that the VAT-induced rise in prices did affect wages (even though income tax was cut at the same time) and contributed to the disastrous wege explosion of 1980.

The second importont question discussed in the book is whether we shoold accept the exchange rate mechanism of the European Monetary System. It is widely rumoured that it is only Mrs Thatcher who is preventing us from doing so, and we can deduce that she finds Alan Walter's arguments convincing. At the heart of his *strong opposition* there is his belief that the EMS contains a basic contradiction, namely that membership causes the *monetary* policiea of member states to diverge rather than to converge. His argument runs as follows. *If* the EMS is intended to preserve fixed exchange rates (at least for a reasonable period) then free capital flows must ensure thet nominal interest rates are the same in all member countries.

Suppose that, et the start of such a period, Germany has en inflation rate of 3 per cent and Italy has an inflation rate of 15 per cent and that the (common) rate of interest is 9 per cent. Alan Walters argues that under these conditions, *Germany*, with e very high real interest rate will experience a substantiel financial squeeze while money and credit will expand in Italy —the precise opposite of what is wanted. The EMS has only "worked" because, in practice, capital flows have been restricted and because there have been frequent re-alignments of exchange rates.

My only reservation about this analysis is that, in Alan Walters' example, monetary growth in the two countries should edjost through reserve changes. Italy with a high inflation rate is likely to lose reserves through its trade balance while Germany will gain them. At the same time, trade pressures should bring inflation rates into line. In addition, the *changes of reserves may cause* fiscal policies to converge, at least in the sense that the countries with high inflation will cut their deficits. Alan Walters admits that this *may* have happened but comments that it is odd to credit EMS with a discipline that arises *from its distortions*.

He concludes that the record of the EMS in producing convergent inflation rates is *dismal and that* a high price has had to be paid in terms of capital restrictions and political fixes of one kind or another.

Finally, and briefly, has there been a "renaissance" as the book's title suggests? It is surely correct that attitudes and *actions, particularly in* manufacturing, are now being transformed and that we are experiencing an exceptional period of sustained increases in labour productivity. It is also true that this is associated with the Conservative government's policies (including the unintentionally severe monetary squeeze of 1979-80). But this success is necessarily associated with the rise in unemployment not because rapid increases in productivity *cause* high unemployment (that would be absurd), but because we seem to be stuck with a system in which we generate rapid increases in productivity and rapid increases in real wages rather than slower increases in real wages (possibly with slower increases in productivity) together with faster increases in employment—as has happened in the US.

Alan Walters admits that he *is baffled*. He argues that high real wages ara the main cause of unemployment but cannot understand why they remain so high, and indeed *continue to* rise.

It is the persistence of high unemployment which must leave the verdict on Conservative economic policy open. Alan Walters suggests that forecasts of 3m or more of unemployment stretching into an indefinite future may be too pessimistic. It would be nice to agree with him.

Will the exiles be persuaded? I doubt it, partly because I suspect that this is not the author's intention. While much of the analysis is based on careful *argument and detailed evidence*, there are other cases where cherished beliefs are dismissed in a footnote. Also the sceptics are unlikely to be convinced by a style which is boldly assertive at one moment and disarmingly tentative at another. He persuaded me to change my mind on at least two important questions (narrow money and the EMS) but that is another matter.

* *Britain's Economic Renaissance: Margaret Thatcher's Reforms 1979-84; OUP £19.50.*

Alan Budd is Professor of Economics at the London Business School.

Mr Lawson's inheritance tax

The old estate duty, with a false label

By Cedric Sandford

IN THE late 1960s and early 1970s it was common ground among serious students of the UK tax system of all political persuasions that estate duty needed reform. "The voluntary tax"; "a tax paid by those who disliked the Inland Revenue more than they disliked their heirs"; "a tax paid only by the mean, the ignorant, the unsophisticated, the patriotic or the peculiarly unfortunate"; "a tax on vice—the vice of clinging to one's property until the last possible moment"—such were typical descriptions of estate duty *because it was so* easy to avoid. While sophisticated devices were not lacking, the simplest method was to give away property and live for seven years. Today, following the Chancellor's 1986 Budget, estate duty is in effect back.

Capital transfer tax was introduced in 1974-75 precisely to stop up the loopholes in estate duty by taxing gifts, by cumulating gifts and adding them to the estate at death in determining the rate of duty, and by tougher measures against discretionary trusts. It was part of Mr Healey's "determined" attack on inequality in the distribution of wealth; the other part was to be an annual wealth tax.

What happened? The gap between Mr Healey's rhetoric and his ections was soon apparent. The White Paper on CTT had contained one very important easement as compared with estate duty—free transfers between husband and wife. Otherwise it had been tough; it had promised the same rate of tax on lifetime transfers as on transfers at death and a minimum of special concessions. During the Bill's passage through Parliament Mr Healey conceded a lower scale of rates for lifetime gifts up to £300,000. In the next year or so be extended the relief for working farmers, introduced a relief for private businesses and raised the threshold from £15,000 to £25,000. Meanwhile, the wealth tax was shelved.

Where Mr Healey had softened the initial impact of the tax, the Conservatives proceeded to undermine it. At its inception Mrs Thatcher, as the Conservatives' spokesman on finance, promised to abolish CTT. After she became Party Leader, her shadow Treasury team was more cautious; instead of abolition, they promised to "draw the teeth" of CTT.

Sir Geoffrey Howe, as Chancellor, soon revealed his prowess at dentistry. The threshold was quickly raised to £50,000, the rate on lifetime gifts was lowered, the cumulation period was reduced from *lifetime to 10 years and* a new relief was introduced for agricultural landlords. Mr Nigel Lawson continued to wield the dentist's drill. Each Budget brought some new concession—thresholds increased by more than the rate of inflation, lower rates of tax on all transfers, lower scales for lifetime gifts and, finally, the abolition of tax on all gifts between individuals save, as with the old estate duty, those within seven years of death, which are to be taxed on a sliding scale. As a percentage of GNP, CTT now brings in less than one-*third of the revenue of the* former duty — that most avoidable of taxes.

This latest move is essentially inequitable. It most benefits the wealthiest and especially those who acquired their own wealth early by inheritance (often by tax-avoiding generation-skipping). They are the ones able to make gifts early and, hence, the people with most chance of surviving for seven years.

Quite apart from the benefit to the richest, the gifts inter vivos provision is an unseemly and inequitable gamble. It is a state-created incentive to enter a lottery on length of life—a dice with death. The state then imposes its own particular form of taxation on this wager. It taxes not the gamble itself nor the winners, but the losers—or, more accurately, the heirs of the unfortunate losers. Nor is it the gift alone which constitutes the stake, for if the gamble fails the gift is aggregated with the rest *of the estate to* determine the rate of duty.

Even on the Chancellor's own terms there is no logic about the gifts inter vivos provision. If the intention is to encourage early giving, as the Chancellor's speech implied, why not simply free from tax gifts made before a certain age, say 55, instead of leaving the outcome to the uncertain date of death?

The Chancellor gave a special reason for ebolishing gift tax: the harm it does to tha private business. How odd that the US, the Mecca of free enterprise, has had a gift tax to supplement its estate tax since 1932 and that a 1979 OECD survey showed some 20 countries having death duties, all of which also had a general gift tax.

The principle that it is in the *best interests* of a business to be passed on from generetion to generation in the same family must itself be regarded as suspect. There is no law of economics which says that the son of an enterprising businessman will himelf be an enterprising businessman. The solution most *conducive to the health* of the business and the benefit of the economy may often be to sell the business or allow in e new interest after the death of the founder.

Not content with emasculating CTT, the Chancellor has edded insult to injury by proposing to call the rump an "inheritance tax." There is a well-documented usage in tax literature by which a tax levied on the corpus of the estate left at death is known as an estate tax, and a tax on what the beneficiary received, his inheritance, is known as an inheritance tax. This is in accordance with the reasonable meaning of language and with logic.

The distinction is real and *important*. An estate tax, save for exceptional provisions such as transfers between spouses, is levied on the deceased's estate regardless of its distribution. An inheritance tax is levied on the beneficiaries in relation to the size of their share and the total tax paid will depend on the size and dispersion of the estate: the more widely the estate is spread, the less the tax on it.

A *move* to a genuine inheritance tax would have been a significant reform — and one which might have been expected to eppeal to a Chancellor concerned to promote a property-owning democracy.

With Chancellor Lawson there has been no attempt at reform. He has merely given us sham reasons for making a shabby handout to the very rich. Not only has he reverted to the old estate duty, he has falsified the label.

The author is director of the Bath University Centre for Fiscal Studies.

Letters to the Editor

Pension scheme surpluses

From the Editor
Pension Lawyer,

Sir,—The Budget announcement illustrates the push-me-pull-you nature of the statutory regulation for pensions. Though *sharing the same premises*, the tax arm (the SFO, part of the Inland Revenue) and the "social" arm (the Occupational Pensions Board) have quite different objectives.

The SFO concentrates — occasionally to the point of neurosis — on denying or controlling what it perceives (often wrongly) as unpardonable tax breaks within this sphere (e.g. no undue "surpluses").

A principal function of the OPB is to police the solvency of contracted-out schemes (i.e. no *deficiencies*).

Reconciling compliance with these two objectives will now become infinitely more tricky for pension practitioners.

If the Chencellor can prevent the actuary's economic assumptions (interest and inflation rates, share, gilt end property values) yawing by more than 5 per cent in any three years the octuary has a fighting chance of setting a contribution rate for the scheme to achieve funding at the 100-105 per cent mark, no more, no less. But the Chancellor can't, and the actuary won't.

Mnch more latitude is needed to prevent the funding of pension schemes becoming an absurd yo-yo.

Keith Wallace,
5 Clifton Street, EC2.

Europe and the airwaves

From the Director-General,
Cable Authority

Sir,—How refreshing was your leader "Europe rules the airwaves" compared with the continuing carping of entrenched interests at the prospect of European moves to remove obstacles to the development of cross-border TV.

You correctly point out that the advent of cable and satellite has ended once and for all the national confines of TV. To say that we need to seek fresh answers to the questions this raises is in no way to attack national broadcasters, as much as they may prefer the *status quo ante*. The simple truth is *that, as ever, the future will be* different from the past. We need to ensure that we take full edvantage of what the future offers.

This anthority supports the view that European measures ere desirahle to override the protectionism that restricts the *choice of the viewer. They are* also important to achieve some common standards which will reessure national authorities—such as ourselves—about the nature of transmissions from beyond our control. It may well be that the European Commission is being unnecessarily restrictive and the details will need much discussion. Bnt et least let us all approach those discussions in a positive spirit.

Jon Davey.
36-44 Cillingham St, SW1.

Nuclear arms control

From Drs A. Haines and W. Howard

Sir,—It is unclear if Sir Geoffrey Howe and the Government have a coherent policy for nuclear arms control, following the report of his speech (March 18).

Whatever the propaganda element of the Gorbachev proposals—no doubt substantial—what matters are the specific points which might coincide with interests of Britain, Neto and "common security."

Britain should act now to reopen the trilateral negotiations with the US and USSR for a comprehensive test han treaty. Is Sir Geoffrey's concern over verification an excuse to do nothing or is it a clever ploy to keep the issue open—now that the US says it wants to continne testing after all?

With leading scientists and officials in the US and USSR saying that *the verification of* a test ban is not a major stumbling hlock, is it not e good time to see if Mr Gorbachev is serious when he appears to say the USSR will accept the necessary (25 to 30) tamper-proof seismic stations on Soviet territory?

Britain should enter into serious on-going arms control negotiationa. Under the non-proliferation treaty this is an obligation. The possibility of the NPT unravelling at the penultimate *fourth* review conference in 1990 must he taken seriously. One of the major reasons why Chnrchill decided that Britain should have nuclear weapons was to have a "seat at the table." How else will the increasing difficulties of relating British nnclear policy to the Geneva talks etc. he achieved? The US might well welcome our participation.

Concerning the relative moral statura of the east and the west, of course they cannot be equated. How would one *measure this? What matters is* whether self interest, east and west, can find common ground in new controls over nuclear weapons.

What policy does Sir Geoffrey have to stop the introduction of e new generation of Soviet missiles? A comprehensive freeze wonld certainly stop further Soviet weapons with no loss of security to the west.

It is good to see Sir Geoffrey mentioning the need for a strict interpretation of the ABM treaty. If his praise for President Reagan *is* designed to make the Americans and Soviets stick to the treaty, this is to be welcomed.

(Dr) Andrew Haines,
(Dr) Will Howard,
Nuclear Freeze,
82 Colston Street, Bristol.

A levy on tapes

From Mr J. Harrington

Sir, — Lord Wilson (March 14) may have e worthy cause for his proposed tape levy. The relationship between the worthy cause and the taping process seems to me rather tenuous.

Tape libraries may be built up. *I seriously question if many* people ever watch tha tapes they have in their libraries more than once. Tape copies may be made and given away or loaned. Does this hurt the sales of pre-recorded tapes? No! The copier would not have paid for a pre-recorded tape. If *it* hurts any group, *it* hurts the video rental store who would otherwise have rented more tapes. Do I hear any calls for a levy to be split by those stores? How many tapes are made of copies of the British films that Lord Wilson cherishes? If a significant amount of taping is of American movies, does he support the payment of the levy to the US producers? If a significant amount of taping is done *of* Wimbledon each June, should a chunk of the tape levy go to the AELT&CC? If a significant amount goea on copying smuggled pornography, should part of the levy go to the porn producers? If a significant proportion goes on creating archives of BBC or ITV series, should a portion go to them?

If Lord Wilson wants £20m to go to his council, he could get a friendly commoner to nudga the Chancellor into assigning that much from the hudget.

A blank tape levy would generate incoma at levels bearing *no correlation* to the public's taping of or even interest in British films. It would also create an expensive bureaucracy to collect it and a crowd of whining "good causes" all wanting a piece of the pie.

Jan R. Harrington
PO Box 746, GPO
New York, NY 10001

New homes and the green belt

From the Leader,
Dartford Borough Council

Sir,—I would like to make two points following your article (March 18) on the green belt.

Government grants for the restoration of derelict land are targeted at the areas of highest economic need not at the areas of highest dereliction. Approximately 15 per cent of this Borough, which adjoins the M25, consists of holes in the ground but we are not eligible for grant under the existing arrangements. Incidentally, the DoE have their own definition of the word "Derelict."

This authority has spent three years trying to get the health authority to rationalise its land holdings in this borough of 600 acres and seven hospitals. The health authority recently submitted a planning application to build a 900-house village on one site but we hava heen served with a section 10 direction notice which prevents us granting planning permission on the site.

Malcolm A. Nothard,
(Councillor)
Civic Centre,
Home Gardens,
Dartford, Kent.

Disenchanted with Cellnet

From Mr C. Wilson.

Sir,—No doubt other users of Cellnet's aervice are beginning to feel we have fallen into tha grip of tha British Telecom Mafia. Having persuaded us to huy high price equipment or take long term leases, it now increases its prices hy 51 per cent for the quarterly standing charge and swingeing increase on call charges.

The excuse it offers is increased investment in tha hardware. Setting aside few firms seek to recoup their expenditure in the first ten days of the investment, Cellnet users are only aware that despite the extravagant claim for improvements in tha service, there has been a vast technical deterioration. Difficulty in getting a line at all at many times of day, constant cross lines, one way transmission and hackground noise, making hearing impossible. In just over fonr weeks I logged 25 feiled calls. This is the service we are now expected to pay 51 per cent more for.

Clive Wilson,
Haydn House Printers,
Haydn Mews,
Castle Street,
Llangollen, Clwyd.

FINANCIAL TIMES
Wednesday March 26 1986

Moscow advises Prague to purge 'dead wood'

By Leslie Colitt in Prague

THE SOVIET Union is to urge the Czechoslovak leadership to carry out sweeping changes among officials in an effort to bring a radical improvement in economic performance.

Officials with the Soviet delegation to the current Czechoslovak Communist Party congress said the Prague leadership apparently wanted to reorganise the economy using the same "old cadres" (officials) as before. They thought it was highly doubtful this could be achieved and pointed to wholesale dismissals over the past year of central and regional economic officials in the Soviet Union by Mr Mikhail Gorbachev, the Soviet leader.

The Soviet officials said Czechoslovakia and the other East European countries urgently needed to modernise their economies to develop advanced machinery and higher quality consumer goods for export to the Soviet Union.

The criticism echoed that of the Soviet ambassador to Bulgaria last year. He said Bulgaria could no longer continue selling shoddy merchandise to the Soviet Union in exchange for oil and gas.

Moscow's frustration with its Comecon partners appears to be growing as world oil prices plunge. The fall is estimated to have cost Moscow more than $5bn this past year in revenue from sales of oil to the West. Moscow is increasingly having to rely on eastern Europe to provide products which it would otherwise buy in the West. The east Europeans, however, are often unable to deliver equivalent goods.

In his speech to the Czechoslovak party congress, the Soviet delegation chief, Mr Mikhail Solomentsev gave no public hint of Soviet dissatisfaction. Mr Solomentsev, one of the few survivors in the Soviet Politburo of the now maligned Brezhnev era, was in fact sent to assure the Czechoslovak leadership of Moscow's continued political support. The advice to purge Czechoslovakia's economic officialdom of "dead wood" is expected to come from officials closer to Mr Gorbachev.

Mr Lubomir Strougal, the Czechoslovak Prime Minister who was once regarded as an advocate of economic reform, told the congress that the party "unconditionally demanded" that ministers, general directors and managers bear full responsibility for fulfilling the party's directives on economic policy.

The Prime Minister said there was an "urgent need" to develop the services sector and to restrict the share of industries consuming too much energy and raw materials. The production of low-quality goods for the home and export markets had to be rapidly changed. Those who were unable to meet the new challenges would have to go, he said.

BL to re-examine future of trucks, Land Rover

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

THE FUTURE of BL Trucks and Land Rover divisions will be re-examined by the company's board following the collapse last Friday of talks with General Motors of the US.

Mr Paul Channon, the UK Trade and Industry Secretary, told MPs yesterday that negotiations with GM had ended following differences over whether the US group would be allowed to take full control of Land Rover. He said that the BL board, which had backed the GM proposal, would "give further study to the alternative ways forward for all the businesses concerned."

There is no formal timetable, but Mr Channon hoped decisions would be taken as soon as practicable. He gave no indication that more taxpayers' money would be available to BL beyond existing guarantees.

Mr Channon said that in relation to Leyland Trucks the BL board would continue to examine "the possibilities for collaboration with other manufacturers and other ways to sustain its improving trend in performance."

Kenneth Gooding in London writes: The BL board is somewhat surprised to have had the decision about Land Rover-Leyland Trucks' future apparently dumped back into its lap. The Government has not ready rejected the board's advice that the GM deal offered the best solution for the companies, their employees and the UK industry as a whole.

GM resolutely refuses to accept the blame for the breakdown in the negotiations. The US group pointed out yesterday that it was the Government, not GM, which at the last moment and because of purely political considerations, asked for a compromise on Land Rover.

GM pointed out that up to two weeks ago there was never any question of any deal which did not include all of Land Rover as part of the package.

GM feels it did its best to help the Government to find a compromise which would allow GM to go ahead with the considerable investment required in Land Rover and its Freight Rover van operations.

Toyota to sell Lotus stake, Page 13; Political background, Page 15

Chaban-Delmas set to become National Assembly president

BY PAUL BETTS IN PARIS

MR JACQUES Chaban-Delmas, the former French Prime Minister, looked set yesterday to become the new president of the National Assembly after the neo-Gaullist RPR party selected him as its candidate for the post.

The choice of Mr Chaban-Delmas, the mayor of the city of Bordeaux for 40 years, represents another setback for Mr Valéry Giscard d'Estaing's efforts to stage a political comeback.

Mr Giscard d'Estaing, French President from 1974 to 1981, is believed to have been keen to be given charge of the finance and economy portfolio in the new Government of Mr Jacques Chirac. Failing that, he had hoped to be elected to the National Assembly's presidency. At one stage, Mr Giscard d'Estaing was tipped as a possible choice as Prime Minister by President François Mitterrand, who is also believed to have considered Mr Chaban-Delmas for the premiership.

Although Mr Giscard d'Estaing has never publicly stated that he wanted the National Assembly job, he made clear that he favoured a candidate from his centrist UDF coalition for the parliamentary post to underline the union between the UDF and the RPR. But the RPR, which has more seats in the National Assembly than the UDF, decided to put forward its own candidate for what is likely to become a key position in coming months.

In view of his slender majority of three seats in the Assembly, Mr Chirac was clearly anxious to secure the parliamentary presidency for his party. By appointing Mr Chaban-Delmas, he has also undermined Mr Giscard d'Estaing's chances of standing as a rival candidate to himself in the 1988 French presidential elections.

Moreover, the choice of Mr Chaban-Delmas is also consistent with Mr Chirac's efforts to make his cohabitation with a Socialist President work. Mr Chaban-Delmas, who is 71, is a contemporary of – and is known to have good relations with – President Mitterrand.

Mr Chaban-Delmas is also well experienced at handling the Assembly, having previously held the parliamentary presidency for a total of about 13 years. "I know the work well," he acknowledged recently.

The new president of the National Assembly will have to be all the more firm because of the entry for the first time of 35 deputies from the extreme right-wing National Front, who have already announced their intention to propose several bills. The RPR and the UDF have said that they do not intend to form any parliamentary alliances with the National Front.

Swiss to rule on Marcos assets freeze

By William Dullforce in Geneva

THE SWISS federal council will decide today whether to confirm its instructions to six Swiss banks to freeze the assets of Mr Ferdinand Marcos, the former Philippines President, and his family.

It risks running into a head-on collision with the banks. They had received the order to block the Marcos assets with "some astonishment," a spokesman for the Swiss Bankers' Association said yesterday.

Swiss bankers complained that their Government was damaging Switzerland's reputation for banking secrecy by acting before any formal application for the recovery of the Marcos funds had been submitted.

The Bankers' Association said it was withholding a statement to allow the Government time to review the matter.

The Government ordered the banks on Monday evening to freeze the Marcos assets after learning that attempts could be made to withdraw them before the expected arrival today of an envoy from the new Philippines administration.

The instructions had been issued as a temporary measure, Mr Achille Casanova, the Government spokesman said. The Government did not know for certain that Marcos family funds had been deposited with Swiss banks.

Mr Joivito Salonga, head of the Philippines Government commission trying to recover $5bn to $10bn Mr Marcos is alleged to have plundered during his 20 years in power, said in Washington last week that the "greater bulk" was believed to be in Swiss banks.

Swiss bankers claim that their Government was setting a dangerous precedent by ordering them to freeze the Marcos assets. Its only comparable action in the past was when it ordered a halt to the inflow of gold from South Vietnam after the collapse of the US-supported regime there in the 1970s.

Orders had never previously been given to freeze the assets of an individual or a family, not even when the present regime in Iran had tried to recover the fortune of the former Shah and his family, bankers said.

The Philippine Government needs to make a formal request for legal aid or institute civil proceedings through a Swiss lawyer, a spokesman for the Justice Ministry said. In any case, it has to provide evidence that the actions of ex-President Marcos would have contravened the Swiss criminal code.

Aquino reforms, Page 4

US consumer prices fall in February

By Nancy Dunne in Washington

US CONSUMER prices fell in February for the first time in more than three years, the Labour Department said yesterday. Lower oil and food prices pushed the price index down 0.4 per cent, the first decline since December 1982 and the steepest fall in 30 years.

In the year to February, consumer prices rose by 3.2 per cent.

The Commerce Department, meanwhile, reported a 0.5 per cent fall in orders for durable goods, but orders actually rose by 2.5 per cent once an expected plunge in military spending was excluded.

Mr Larry Speakes, the White House spokesman, welcomed the news and said that, along with February's increase in personal income, it means that "Americans are making more money, and with inflation virtually non-existent, they can buy more goods and services with it."

Mr Malcolm Baldrige, the Commerce Secretary, interpreted the durable goods orders report as positive news. "The net impact of lower oil prices and the declines of interest rates and the value of the dollar are improving the outlook for durable goods producers," he said.

Orders for non-defence capital goods rose 17.5 per cent after declining 19.7 per cent in January. Defence capital goods orders dropped 29.5 per cent in February after rising by 44.7 per cent increase in January.

The decline in consumer prices followed increases of 0.5 per cent in November, 0.4 per cent in December and 0.3 per cent in January.

Energy prices declined by 6.8 per cent, reflecting the big drop in crude oil costs. Transport was cheaper during the month by 1.4 per cent, and food and beverage costs fell by 0.6 per cent.

US banks buy stake in de Benedetti company

BY ALAN FRIEDMAN IN MILAN

SHEARSON LEHMAN Brothers, the investment banking subsidiary of the American Express group, is one of three banks which together are buying a 7 per cent stake in Cofide, the ultimate holding company through which Mr Carlo de Benedetti, the Olivetti chairman controls a personal industrial and financial empire.

Shearson Lehman is believed to be taking a stake of just under 5 per cent, S G Warburg, the UK merchant bank, and Lombard Odier, the Geneva private bank, are each understood to be buying 1 per cent. The total price to be paid by the three banks is about L23bn ($15m).

Cofide, through the CIR and Sabaudia holding vehicles, controls key equity stakes in Olivetti, Pirelli the Buitoni-Perugina pasta and chocolates group, the Mondadori and L'Espresso publishing groups, the Valeo and Fram-Fiaam car components group, Latina insurance and other companies. It is thought likely that a representative of Shearson Lehman in New York will soon be invited to join the board of Cofide.

Cofide first came to the Milan bourse last December when Mr de Benedetti offered 25 per cent of the company's shares to the public for a total of L58.1bn. At the same time, the Indosuez Group of Paris bought a 7 per cent stake for L18.3bn, leaving Mr de Benedetti with 68 per cent of Cofide.

Early this year, Cofide launched a share issue designed to raise an additional L135bn of fresh capital. Mr de Benedetti may have sold Shearson Lehman the rights needed to participate in this share issue. At least one of the other two banks may also have made its share purchase on the stock market.

US details oil loans by banks

Continued from Page 1

pendent producers, while only $3.4bn or 6.5 per cent was to leading oil companies which are considered the best financial risk. Loans to oil-field service companies totalled $6.4bn and loans to refiners totalled $3bn.

Of the total loans some $3.1bn or 7.6 per cent were non-performing, which is more than twice the national average. These figures were computed before the recent collapse in oil prices and the FDIC said it expected the non-performing total to rise sharply.

The Comptrollers Office said nine of America's 12 multinational banks held $23.3bn of oil and gas loans and accounted for 58 per cent of the total loans in its special survey.

US makes new attack on Libyan targets

Continued from Page 1

total of four the number of Libyan patrol boats that had been struck by US missiles over the past two days. After the missile-carrying patrol boats had threatened the US fleet, two had been sunk, another disabled and a fourth had returned to port damaged.

Mr Larry Speakes, the White House spokesman, said the US had also conducted a second missile strike on the base for Libya's Soviet-built surface-to-air Sam 5 missiles at Sirte, which had earlier been reported knocked out by the first US strike on Monday. He said there had been no US casualties or any damage to American ships or aircraft.

The first round of retaliation was ordered after Libya unsuccessfully fired six surface-to-air missiles at US aircraft after US air and naval forces crossed the "Line of Death" drawn by Col Gadaffi in the northern waters of the Gulf.

Early reports yesterday said that the second round followed the firing of another six Libyan missiles, but Mr Speakes cast doubt on this, suggesting that the two counts may have duplicated each other. The Pentagon put the number at between six and 12.

There was also some confusion over how many Libyan patrol boats had been hit after Mr Caspar Weinberger, the US Defence Secretary, said that the number could have been five.

The extent of the damage to the Sirt missile bas was also unclear, although it appeared that the Libyans had been using replacement equipment after the first American strike knocked out a radar installation. After operating fitfully through the night, the base was out of action yesterday, Mr Speakes said.

President Reagan was keeping a close watch on developments, but decisions on further US action were left to military commanders on the spot, the White House said. The Pentagon said that it was also up to the local commanders to decide when to break off the exercise, which involves 30 ships led by three aircraft carriers.

In New York, the US protested to the United Nations Security Council against what it termed Libya's "unjustified attacks" against American naval vessels in international waters. Mr Vernon Walters, tha US ambassador to the UN, said that the US had exercised legitimate rights of self-defence and had shown "great restraint."

The US action was widely welcomed on Capitol Hill by both Republican and Democratic leaders, and seemed likely to be highly popular with the American public. With few exceptions, Congressional leaders closed ranks around Mr Reagan in a show of bipartisan unity.

Some leading figures on Capitol Hill, however, warned that Col Gadaffi would retaliate with terrorist attacks, possibly even in the US.

The State Department said that it held the Libyan Government responsible for the safety of the 100 or more Americans who had remained in the country, in defiance of Mr Regan's orders to them to leave.

Saudis to maintain production

Continued from Page 1

giving delegates a chance to consult with their governments, as well as non-Opec producers.

Sheikh Yamani said that the Opec exchanges with Mexico, Egypt, Oman, Malaysia and Angola had been "encouraging." At the same time, he left no doubt that any solution to world economic problems resulting from the collapse of oil prices demanded the collaboration of Britain and Norway in restraint of overall production.

Against the line taken by Saudi Arabia, Kuwait and the United Arab Emirates, there was a tough drive by an alliance of Iran, Algeria and Libya, who insisted that Opec could go it alone by making a deep cut from the present ceiling of 16m b/d still officially in force but in practice abused.

China faces reduced growth rate

Continued from Page 1

The premier drew attention to other problems such as severe shortages of energy and transport capacity and of raw materials and semi-finished products. "Low quality products and poor economic results are the fatal weaknesses of our economy," he said. "Investment is over-extended and the investment pattern is irrational."

To correct this capital investment in 1986 and 1987 would remain at about the same level as last year, possibly with small increases in the latter half of the five-year period.

China should switch investment from processing industries and non-productive activities to energy, transport, telecommunications and the production of raw and semi-finished materials, Zhao urged.

World Weather

		°C	°F
Ajaccio	S	14	57
Algiers	R	17	63
Amsterdam	F	6	43
Athens	S	17	63
Bahrain	F	27	81
Bangkok	S	33	91
Barcelona	S	18	61
Beirut	S	22	72
Belfast	F	7	45
Belgrade	F	21	70
Berlin	F	8	46
Biarritz	F	7	45
Bombay	S	33	91
Bordeaux	C	8	46
Brussels	F	7	45
Budapest	R	6	43
B. Aires	C	24	75
Cairo	F	22	72
Cape Town	S	23	73
Caracas	C	26	73
Casablanca	R	14	57
Chicago	C	12	54
Cologne	F	7	45
Copenhagen	Sl	2	36
Corfu	C	14	57
Dallas	—	—	—
Dublin	F	7	45
Dubrovnik	C	13	55
Edinburgh	F	8	46
Faro	C	14	57
Florence	F	13	55
Frankfurt	F	7	45
Funchal	C	16	61
Geneva	C	7	45
Gibraltar	S	16	61
Glasgow	F	7	45
Guernsey	C	6	43
Helsinki	Sn	1	34
H. Kong	C	16	61
Innsbruck	F	-8	18
Inverness	S	5	41
Islamabad	C	22	72
Istanbul	S	15	59
Jakarta	C	31	88
Jersey	R	6	43
Jo'burg	S	20	68
Lima	S	25	77
Lisbon	R	12	54
London	R	7	45
Los Angeles	S	29	84
Luxembourg	F	5	41
Madrid	C	15	59
Majorca	C	13	55
Malaga	S	15	59
Malta	S	18	64
Manchester	F	6	43
Manila	S	35	95
Melbourne	S	22	72
Mexico City	S	23	73
Miami	C	22	72
Milan	S	13	55
Montreal	C	-3	27
Moscow	Sn	0	32
Munich	F	6	43
Nairobi	S	28	82
Naples	C	18	64
Nassau	C	21	70
New Delhi	S	25	77
New York	F	11	52
Nice	S	18	64
Nicosia	C	20	68
Oporto	F	11	52
Oslo	Sl	2	36
Paris	S	3	57
Peking	S	14	57
Prague	F	6	43
Reykjavik	S	-4	25
Rhodes	S	18	64
Rio de J'o	S	31	88
Rome	F	15	59
Salzburg	S	5	41
San Francisco	F	15	59
Seoul	S	11	52
Singapore	F	30	86
Stockholm	C	2	36
Strasbourg	C	7	45
Sydney	S	26	79
Taipei	C	18	64
Tangier	F	14	57
Tel Aviv	C	20	68
Tenerife	F	20	68
Tokyo	S	11	52
Toronto	C	4	39
Tunis	S	23	73
Valencia	C	14	57
Venice	F	9	48
Vienna	C	9	48
Warsaw	F	9	48
Washington	—	—	—
Zurich	F	7	45

Readings at mid-day yesterday:
C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

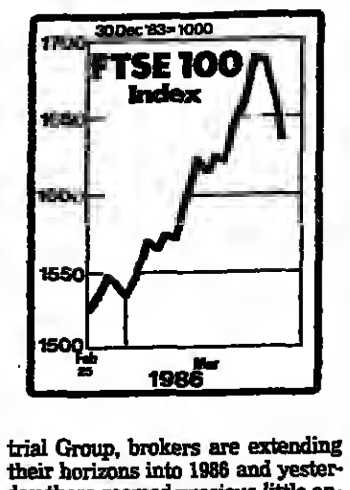
THE LEX COLUMN

Maxwell sells to Maxwell

Amid all yesterday's red ink, the printing and publishing sector was alone capable of holding its own. Shares in BPCC were suspended and therefore could not fall. It is another matter what the market will actually make of the deal whereby BPCC is buying for £238.65m the journals business of its own parent company, Mr Robert Maxwell's Pergamon Holdings.

On one level this is a transaction between Pergamon and itself. Since BPCC is paying in shares, Pergamon's holding in BPCC therefore runs back up to almost 75 per cent. Although Pergamon is locked into the shares for six months, it has exchanged an intangibly valuable asset for something much more liquid. If Pergamon has any major transaction in mind – something rather more substantial than arbitraging the takeover of Clive Discount, or camping on the doorstep of Britannia Arrow – this switch might noticeably increase its elbow room.

BPCC has at the same time become a much larger company. Not only is its issued capital expanded by about three-quarters, but underlying profits have roughly doubled. On their historic form, the journals are a reliable cash generator, and their growth prospects are not to be denied. Bankers Trust has been called in to provide all manner of statistical justification for the transfer value, and make a reasonable case for taking on such titles as "Insect Biochemistry" and "Acta Astronautica" at a fairly demanding price. If the market accepts the case that earnings a share increase from the outset, the sector may even outperform again today.



P&O

The stock market has been bounding ahead for most of the year in gleeful anticipation of just the sort of results produced yesterday by P&O. Higher operating profits in all divisions – except currency-clobbered Australia – contributed to a 42 per cent advance in pretax profits, before profit-sharing. But even results which came in up to expectations failed to win applause yesterday and P&O's price slipped back 12p to 536p. For the genuine disappointment, like British Aerospace, the market reserved a grislier fate altogether.

In order to justify a historic multiple of over 16 times in the Industrial Group, brokers are extending their horizons into 1986 and yesterday there seemed precious little opportunity for P&O to extend the recent rate of earnings growth. This year is bound to see a fall in the OCL contribution – even if forecasts of halved profits may be overdoing it a bit – and growth of 13 per cent to £145m pre-tax will be whittled away by a higher tax rate of about 30 per cent and the minority charge attributable to the Euroferries holding. So, while a historic multiple of 15 times may represent a discount to the market, the general view was that P&O will struggle to keep it up. That may be, although the Euroferries and OCL investments provide any number of opportunities for financial wizardry, the balance sheet is in excellent shape and the cruise operations, which are making next to nothing after financing costs, could contribute £20m or more on a sensible cost base. There is life in the old dog yet.

British Aerospace

It is amazing what a spot of deferred tax accounting can do to a share price.

Yesterday British Aerospace produced a respectable enough set of preliminary results – pre-tax profits were up by a quarter to £150.5m – but accompanied it with the unfortunate suggestion that it might soon be paying real UK corporation tax. The market did a couple of quick sums on the effect of a rising tax charge on reported earnings and knocked 41p off the share price to leave it at 565p.

The BAe price has admittedly been riding for a fall. It raced up from 500p to 600p in roughly a month as the market digested the news of the £5bn Saudi contract, which almost doubled the size of the group's order book. And yesterday was, to put it mildly, a tempting time to take profits.

Yet, even assuming that BAe does no more than maintain earnings per share this year, the prospective multiple of just under 10 is scarcely too demanding. And the odds are that it should do a little better than that. Saudi Arabia should contribute both profits and cash flow, while space is set to turn into the black and civil aircraft should at least break even. Pre-tax profits of £200m should permit a modest increase in earnings, even allowing for the higher tax charge and the enlarged share capital.

Looking further out, BAe is still employing embarrassingly large chunks of capital which make almost no return. The Saudi contract will, if all goes according to plan, keep profits motoring along until BAe has started to make decent returns on aircraft wings and space bits and bobs.

Lasmo

Having defied the sceptics who predicted a dividend cut for 1985, the independent UK oil group Lasmo will be lucky to earn enough this year to cover the £20m cost of a maintained payout. It would take an extraordinary closing of ranks at Opec's meeting next month to return the oil price to last year's average level, and sterling is not helping either. But at least Lasmo had the cashflow out of which to pay a dividend. To others in the sector, it is now a question of survival if the oil price stays around the $12 mark.

Lasmo is adopting a shrinkage policy, cutting exploration spending sharply, selling off a few low-producing wells in Kansas, and not drilling a hole unless there is a return at the bottom of it. Net gearing is a record low, even if that ratio was achieved by increasing equity rather than reducing debt, and as long as tempting offers of producing assets from banks are not too numerous, Lasmo's balance sheet could carry it through a tough year or two. Shareholders will be most comforted, however, by RTZ's new 25 per cent interest, and the chance of a bid in two years time. RTZ's presence, which may have as much to do with the held dividend as last year's rights issue, limited yesterday's share price fall of 7p to 123p.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Wednesday March 26 1986

Framatome earnings surge after setback

By David Marsh in Paris

FRAMATOME, the French nuclear plant manufacturer, 40 per cent owned by the nationalised Compagnie Générale d'Electricité (CGE) group, profited from expanding French nuclear power capacity to turn in sharply higher earnings last year.

The company's net profits surged to FFr 656m ($93.7m) in 1985 on turnover of FFr 9.65bn against FFr 13.4 on sales of FFr 7.68bn in 1984.

The marked difference between the two years was caused by losses in 1984 which Framatome was forced to carry as a result of the bankruptcy of Creusot-Loire, the heavy engineering group, which, up to its disappearance, owned 50 per cent of Framatome.

Long-running negotiations to clear up Framatome's shareholding structure finally ended last summer when CGE was given approval by the Government to take its 40 per cent stake.

From January 1 the other shareholders are the French atomic energy commission (CEA), the stake of which has been reduced to 35 per cent from 50 per cent, along with the Dumez construction group (12 per cent), Electricité de France (10 per cent) and management with 3 per cent.

The bankruptcy of Creusot-Loire cost Framatome FFr 859m in 1984 as a result of heavy write-offs on loans it made to its former 50 per cent owner. Last year a public dispute erupted between Framatome and the CEA when the latter decided to pocket FFr 757m to which Framatome also laid claim, representing the value of the shares previously held by Creusot-Loire.

Last year's net earnings, however, also compare favourably with 1983 when Framatome registered net profits of FFr 201m. Framatome said last year's high profits were caused by the bringing into service of four French nuclear plants as well as of a nuclear power station in South Africa which represented one of Framatome's main successes so far on the export market.

Framatome is still cautioning that profits will turn down in coming years as a result of the waning pace of new French nuclear plant construction. Only one new reactor is being ordered per year compared with six at the end of the 1970s. This rate is expected to be kept up for the foreseeable future.

However, the size of Framatome's orders in hand is underlined by the total of 10 French nuclear reactors being constructed at the end of last year. Framatome is also building up increasing activity in maintenance and other diversified services to prepare for a gradually decreasing proportion of nuclear plant construction in its turnover.

Paul Betts in Paris assesses the impact of Carlo de Benedetti's interest in Valeo

Italian throws spanner in the French works

MR Carlo de Benedetti's stock market raid on Valeo has jolted the French Government and the country's car industry, at the same time as causing consternation in the management ranks of the large French car components manufacturer.

The chairman of Olivetti could not have chosen a more unexpected moment to strike. The day before he announced his purchase, the French group had summoned financial analysts to report its recovery after several years of difficult and painful restructuring.

Valeo was aware of financial manoeuvres following the sharp rise in its share price and the unusually high volume of transactions in its stock on the Paris bourse. But the last thing it expected was to find itself the target of a foreign financial predator. "We were just beginning to start feeling good again with the prospect of returning to the black this year," an executive commented sadly shortly after Mr de Benedetti's initial acquisition last month.

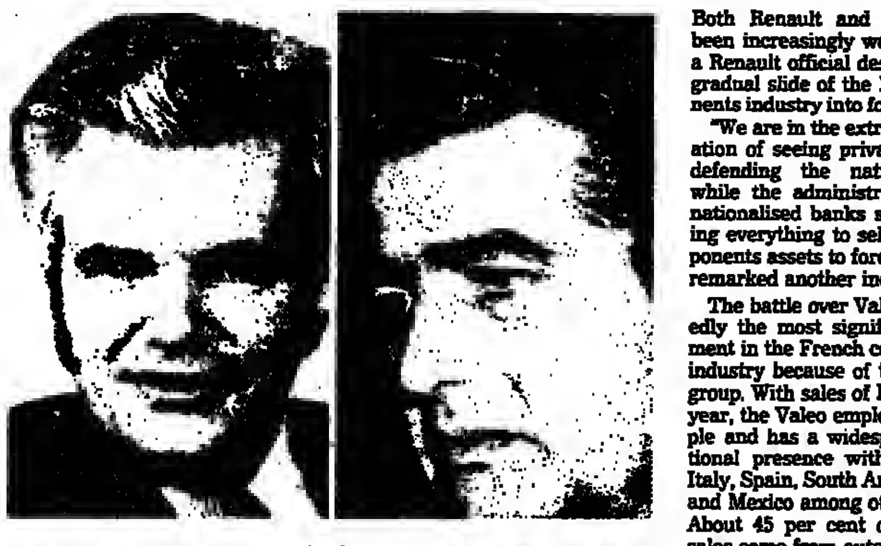
But after the initial shock of the de Benedetti move, the French company and its 64-year-old chairman, Mr Andre Boisson, decided to fight back. Valeo has made no secret of its intention to defend vigorously the industrial strategy which it has been painstakingly putting together during the last few years.

Mr de Benedetti paid some FFr 500m ($71m) for 19 per cent of Valeo at the end of last month. A few days later be was back in actinn, this time with a partial bid aimed at lifting his shareholding to 34 per cent.

"Mr de Benedetti was probably not planning to have to pay for this extra stake. He thought that with the 19 per cent and the support of other shareholders he would have a controlling voice in the company," explained nne analyst. "Instead, the nationalised banks and financial institutions with shares in Valeo don't seem to have pledged their unambiguous support to Mr de Benedetti. Otherwise be wouldn't have had to make n bid for additional shares."

It is not the first time Valeo has had to fight off an approach by a foreign group. Last year, the French company's bankers, apparently with the support of the Socialist industry ministry, proposed a financial rescue package for Valeo which would have allowed Bosch, its larger West German rival, to take a direct stake in the French group. Bosch already owned a small indirect stake. But Valeo argued forcefully that extending financial links with Bosch would damage the French group's credibility as an independent car components manufacturer.

The Socialist Government and the nationalised banks had clearly become impatient over Valeo's long drawn out recovery and financial needs. "They didn't want Bosch and now they don't want the Italians," remarked a senior member of the Socialist administration just before the March 16 elections, which returned a right-wing majority in the National Assembly.



Andre Boisson, Valeo chairman (left), and Carlo de Benedetti, Olivetti chairman.

The Valeo takeover bid is expected to pose a major test of industrial policy for the new French Government – the more so as the entire French car components industry is currently undergoing a major upheaval.

Questioned on Mr de Benedetti and Fiat's moves while she was still industry minister, Mrs Edith Cresson said: "Do you want to see our car components industry end up in the hands of the Japanese nr with the Italians?" The former Socialist industry minister was echoing the widespread concerns of the European components industry over the increasing efforts in recent years of the Japanese to penetrate the European market – especially France.

Both Renault and Peugeot have been increasingly worried by what a Renault official described as "the gradual slide of the French components industry into foreign control."

"We are in the extraordinary situation of seeing private enterprises defending the national interest while the administration and the nationalised banks seem to be doing everything to sell our car components assets to foreign interests," remarked another industry official.

The battle over Valeo is ondoubtedly the most significant development in the French car components industry because of the size of the group. With sales of FFr 11.4bn last year, the Valeo employs 28,000 people and has a widespread international presence with activities in Italy, Spain, South America, the US and Mexico among other countries. About 45 per cent of the group's sales come from outside France. In certain sectors it has built up major market penetration – it has become the world leader in clutch systems and is second after General Motors in making radiators.

Mr Jacques Calvet, the chairman of Peugeot, a customer of Valeo, has not hidden his worries over Mr de Benedetti's moves. For the head nf the large French private car group, it is crucial that Mr de Benedetti does not interfere in the affairs nf Valeo without the agreement of its chairman, Mr Boisson, and his management team.

The group, according to Mr Boisson, had now recentred itself on its core car components business after shedding most of its diversified assets. A costly and unsuccessful diversification into the construction sector has been cut back considerably and the group has also just sold its loss-making heavy duty axle business to Rockwell of the US.

Over the past seven years the workforce has been cut from 42,000 to 28,000. It has taken nearly 15 years to reorganise the French alternator and starter motors business around Valeo. Finally, after losing about FFr 100m last year and FFr 147m the year before, the group could earn between FFr 150m and FFr 200m this year.

It managed last year to negotiate a financial support package of about FFr 1bn and has been planning a new share issue this year to raise about FFr 600m. At the same time as restructuring its industrial activities, Valeo has been working to reduce its debt service burden, which at one stage had totalled as much as 6.5 per cent of annual group sales. Financial charges have now declined to 4.5 per cent of sales and are expected to drop to about 4 per cent this year

"Under the circumstances, it was not surprising that Valeo should bave interested a financier like de Benedetti," said a French financial analyst.

Lac wins time to fight mine decision

By Bernard Simon in Toronto

AN ONTARIO court has granted Lac Minerals a six-month stay of execution pending the outcome of the company's appeal against an earlier decision ordering it to hand the Williams gold mine over to International Corona Resources.

The two companies are in the meantime to set up a committee to supervise the operations of the mine, in western Ontario.

Lac will continue operating the mine for the time being. The supervisory committee will contain an equal number of representatives from each company.

The court has laid down several conditions, including a requirement that the mine's operation and development be continued in accordance with Lac's existing five-year plan. Until the outcome of the appeal is known Lac is obliged to fund operating and capital costs from cash flow and to fund any deficit. The company may not allocate to profits the proceeds of any forward gold sales.

The mine, in the Hemlo area of western Ontario, will be the largest gold producer in Canada when it reaches full capacity of 400,000 ounces a year in 1989. The supreme court found that Lac had improperly acquired mineral rights to the Williams property from the widow of an American prospector in 1981 by abusing confidential exploration results supplied by Corona. The court valued the mine at C$700m (US$496m).

Corona has appealed against a section of the original judgment which requires it to reimburse Lac C$154m in development costs.

● First City Financial, the financial services and property group controlled by Vancouver's Belzberg family, suffered a sharp decline in earnings last year to C$22.4m (US$15.8m) or C$1.12 a share from C$47.7m or C$2.37 in 1984.

Manufacturers Hanover to sell mortgage unit

BY PAUL TAYLOR IN NEW YORK

MANUFACTURERS Hanover, the New York-based banking group, is selling its mortgage subsidiary to Fireman's Fund, the US West Coast property and casualty insurer which was spun off from American Express last year, for $260m in cash.

Manufacturers Hanover Mortgage (MHMC) is the nation's third largest mortgage bank with 31 offices in 15 states and a portfolio of about 363,000 mortgages worth $14.9bn. Last year the unit originated about $1.7bn of residential mortgages. It is the largest mortgage banking subsidiary of any US bank. Only Lomas Nettleton Financial and GMAC mortgage, which both have mortgage portfolios of around $20bn, are larger.

Manufacturers Hanover, which was known to be seeking a buyer for the unit, said the deal, expected to be completed in the second quarter, will result in an after-tax gain of about $115m.

The decision to sell the mortgage banking unit fits into the group's evolving nationwide consumer banking strategy built around its CIT financial unit which was acquired in 1984. MHMC, although large, is no longer seen as essential to this strategy, partly because Manufacturers Hanover, already has an extensive consumer office network across the US.

In addition the sale allows Manufacturers Hanover to capitalise on the recent high prices being paid for mortgage banking businesses.

Mr John McGillicuddy, Manufacturers Hanover's chairman and chief executive, said, "we are taking advantage of the attractive premiums now accorded well-positioned mortgage banking companies. It enables us to further expand our capital base while gaining greater flexibility for other strategic initiatives and without impacting our strong standing in the nationwide consumer banking market."

For Fireman's Fund, which became an independent company last October after the largest initial public stock offering ever, the acquisition will mark a major diversification and signals progress in its steady turnround.

Maytag to pay $750m for Magic Chef

By William Hall in New York

MAYTAG, the US domestic-appliance manufacturer, has agreed to take over Magic Chef, its larger but less profitable rival, in a $750m deal that will create an important new force in the industry.

The boards of both companies have approved the definitive merger agreement, under which each share of Magic Chef common stock will be converted into 1.671 shares of Maytag common stock. Magic Chef will become a subsidiary of Maytag, which is based in Newton, Iowa.

Magic Chef is one of five leading appliance manufacturers in the US and produces everything from dishwashers and refrigerators to air-conditioning units. Close to a fifth of its products are sold through Montgomery Ward, the big retail chain.

The company has long been regarded as a possible takeover target but until now the founding Rymer family has shown no interest in selling.

Hiram moves to halt takeover

BY BERNARD SIMON IN TORONTO

HIRAM WALKER, the Canadian distiller and energy producer, has taken the first steps towards mounting a defence against the C$1.2bn (US$867m) takeover bid announced last week by Gulf Canada, the resources group controlled by Toronto-based property developer Olympia and York.

Hiram Walker said yesterday that it has arranged a C$2.5bn term credit with a group of Canadian banks "to strengthen the company's ability to ensure that maximum values accrue to current shareholders." No further explanation of the borrowing was given.

The company also plans to take legal action against Gulf for allegedly violating US federal securities laws by excluding Hiram's US shareholders from the offer.

Gulf aims to buy 26m Hiram Walker common shares at C$32 a share and 13.5m class D preference shares at C$28¼ each, equal to a 38 per cent voting interest. The offer will be made on Canadian stock exchanges on April 4. Olympia and York already owns 11 per cent of Hiram's voting shares.

Gulf has limited its offer to Canadian shareholders.

CANADIAN CONSUMER GOODS GROUP SEEKS PLACE IN FINANCIAL SERVICES SECTOR

Imasco takes a shine to Genstar

BY ROBERT GIBBENS IN MONTREAL

FOR SEVERAL years Imasco, the Canadian tobacco products, fast-food and retailing giant, looked to consumer goods for diversification. Now that objective has been broadened to financial services, the growth business of the late 1980s. In the summer of 1983 Imasco bid C$1bn (US$709m) for Canadian Tire, the country's most successful national franchise chain, selling car parts, hardware and sporting goods. Imasco wanted Canadian Tire badly, but it failed to win support from the controlling family interests and was forced to retreat.

From that point on, Mr Paul Pare, Imasco's chairman, began to emphasise consumer services as the target, including financial services in the form of a trust company.

Ironically, Imasco had hardly completed its strategic revision before Canadian Tire got into trouble with its US operation and had to sell it.

Imasco may have another fight on its hands with its C$2bn bid for Genstar, a financial services, building-materials and property group with operations in Canada and the US, which is 18.3 per cent controlled by its co-founder, the Société Générale de Belgique.

Imasco has offered C$54 a share for the 37m shares of Genstar and is confident that, with the Société Générale holding firmly under option and possibly commitments from several institutions it can carry the day. But Genstar stock traded on Monday at well above the C$54 bid price, suggesting that investors believe a counter-offer is possible and that Imasco may be ready to raise the odds.

The second largest stockholder in Genstar is the Quebec pension plan agency, the Caisse de Dépôt, with about 7 per cent. It is believed to be sympathetic to the Imasco bid but its policy is to take the highest available offer. In any case it would show a profit of about 100 per cent on its holding. The Genstar management is the third largest stockholder group.

Imasco has been very successful in its diversification since it emerged from being the Imperial Tobacco Company of Canada 25 years ago to become a consumer products group. It has managed to preserve its tobacco-products market share at about 50 per cent of the domestic market and that business accounts for about half its total profits.

In the 1970s, Imasco moved into the US with the acquisition of the Hardee's fast-food chain. A few years later it sold some smaller Canadian food-processing and retailing operations and expanded its Canadian drugstore retailing group into the US with the acquisition of People's Drug Stores.

Imasco has managed an average compound annual growth rate in earnings of between 15 and 20 per cent over the past decade. It has split its stock several times and has been a very good investment for Bat Industries of Britain, which now owns 44 per cent. In the first nine months of fiscal 1986 Imasco earned C$210m or C$1.93 a share on total net revenues of C$3.27bn.

Last year Imasco officially became a Canadian company under the new Canada Investment Act. That meant it could engage in new lines of business in Canada without federal Government review, opening up the way for a move into financial services.

The review process had been a bone of contention with the previous Trudeau Government.

Imasco had been eyeing Genstar, with its two trust company acquisitions since 1983, for some time. Canada Permanent and Canada Trustco, which Genstar won after takeover battles, together manage assets of well over C$20bn.

It is believed that Imasco's option agreement to buy the Société Générale interest in Genstar for C$300m was sealed only last Thursday, before Mr Pare and Imasco president Mr Purdy Crawford met Genstar management at the weekend without reaching any agreement.

Genstar's financial services would be the ideal "fourth leg" for Imasco, especially if the purchase can be offset by spinning off some of Genstar's non-financial interests. Imasco has always prided itself on its ability to run consumer service businesses and it has long wanted to plough back some of its tobacco profits into Canada. Margins on its fast-food and drugstore businesses in the US are coming under pressure.

Imasco says its bid requires 51 per cent of the Genstar votes or rather more than half the common shares outstanding because of the complexity of Genstar's equity structure.

But Genstar by-laws require a two-thirds vote by shareholders instead of a simple majority to change the board.

Probe expected into pre-bid trading

GENSTAR stock was trading at around C$59 (US$39), well above the $54 a share cash offer from Imasco, as investors in Canada and the US waited to see if a counter-offer would materialise.

The Toronto and Montreal stock exchanges and the Ontario and Quebec securities commissions were expected to investigate trading in Genstar stock late last week. The price rose about 10 points to $55 on Thursday and Friday on volumes of 1.25m shares as rumours persisted that a bid was imminent.

Imasco had no further comment on its offer for the financial services, building materials and property group. Genstar's management was also silent.

Analysts estimate the purchase of all of the Genstar stock, including shares reserved under stock options, could cost Imasco about C$2.6bn or the full amount of its special short-term credit lines. They estimate disposals of Genstar's non-financial interests might raise between C$900m and C$1bn.

Imasco has made clear that it is interested in the long term only in Genstar's financial service assets.

Analysts say Imasco will have to do some major equity financing if its bid succeeds. They do not expect Bat Industries of the UK, which now holds 44 per cent of Imasco, would participate, partly because it is busy with its own expansion plans.

Imasco is believed to have gotten commitments from several institutions representing up to 20 per cent of the Genstar stock, in addition to the 18.3 per cent holding of Société Générale de Belgique which has also been committed.

Société Générale de Belgique plans BFr 6bn rights issue

BY PAUL CHEESERIGHT IN BRUSSELS

SOCIÉTÉ GÉNÉRALE de Belgique will return to the markets this spring to raise up to BFr 6bn ($128m) in new capital thorugh a rights issue.

Sociéte Générale, the biggest industrial and financial holding company in Belgium, disclosed plans for its fifth capital increase in three years yesterday as it announced a 42.9 per cent increase in unconsolidated net profits.

Profits last year totalled BFr 2.87bn compared with BFr 2bn in 1984. The net dividend on ordinary shares rose to BFr 103 from BFr 98 in 1984. Shares attracting special tax concessions have a dividend of BFr 131 after BFr 107.50 the previous year.

The capital increases are the result of a 1981 decision to build up the company's internal resources, consolidate its balance sheet and provide funds for geographical and technological expansion.

Terms of the new rights issue have to be settled, and approval will be sought at an extraordinary shareholders' meeting. It is expected to be similar in size to an international capital raising last November which brought in BFr 5.7bn.

Earlier, Société Générale had been to the local market with two rights issues and, in 1984, converted bonds into shares. These operations together raised BFr 14.7bn.

Capital restructuring has shown up in the results. One reason for the 1985 profits increase was the disappearance of nearly all debt. But higher dividends have been coming through from group companies, notably in the non-ferrous metals, banking, energy and chemicals sectors.

The final figures will show that profits have also been boosted by capital gains from disposals, most significantly the disposal

Printemps to increase dividend

By Our Financial Staff

PRINTEMPS, the big French department store group, reports good profits growth for 1985 and plans to step up its dividend from FFr 8 a share to FFr 9.50.

Despite reduced earnings from the chain's main Paris store, which was hit by a bomb explosion during the peak Christmas shopping season, net profits at Printemps rose by 23 per cent to FFr 115m ($16.4m) last year.

Printemps SA, the unit which runs the Paris store, said its earnings dipped to FFr 65.5m from FFr 75.5m in 1984. The group explained that the bomb attack cost an estimated FFr 30m in lost sales.

Sharp rise in Linde earnings

By John Davies in Frankfurt

LINDE, the West German engineering and industrial gases concern, substantially increased its earnings last year, with the domestic group's net profit up 27 per cent at DM 80.7m ($35m) and parent company net profit 31 per cent higher at DM 74.9m.

The company has already announced that it is increasing its dividend for the second year in succession to DM 11 a share, compared with DM 10 for 1984 and DM 9 for 1983.

Sales revenue of the domestic group rose 4 per cent to DM 2.7bn, with strong impetus coming from sales of gases and fork-lift trucks. Including operations abroad at least 50 per cent owned, worldwide sales revenue edged ahead 0.4 per cent to DM 3.6bn, with the increase restrained by the rise in the value of the D-Mark.

Mr Hans Meinhardt, the chief executive, said that Baker Material Handling, Linde's fork-lift-truck subsidiary in the US, made a profit for the first time last year. Linde had also made a profit in France, where it took over some fork-lift-truck operations of the troubled Fenwick Manutention group in 1984.

Company executives said Linde's capacity utilisation was high – up to 100 per cent in its industrial gases business, which is benefiting from the upturn in manufacturing industry.

Industrial gases made up 28 per cent of Linde's world sales revenue last year, compared with 26 per cent in 1984. Fork-lift trucks and hydraulic equipment also made further headway, accounting for 37 per cent of sales last year compared with 31 per cent in 1984.

By contrast, the process plant division contributed only 20 per cent of sales revenue.

Wartsila profits decline by 39%

WARTSILA, the Finnish shipbuilding group, reports a 39 per cent decline in profits for 1985 with net earnings dipping from FM 759m to FM 465m ($90.6m) writes our Helsinki correspondent. Last October the group warned that profits were likely to drop 45 per cent from the exceptionally buoyant result of 1984.

Despite the downturn, Wartsila is holding its dividend at FM 7.80 a share. Turnover last year fell to FM 5.5bn from FM 6.2bn. The company has recently been laying off workers as a result of thinning order books.

INTL. COMPANIES & FINANCE

Bell Group midway profits surge

BY LACHLAN DRUMMOND IN SYDNEY

MR ROBERT Holmes à Court's Bell Group, the Perth-based industrial and investment concern, more than doubled net profits to A$55.78m (US$40m) in the half-year to December, up from A$26.85m.

Meanwhile, the fate of court actions taken by Broken Hill Proprietary (BHP) challenging the now withdrawn takeover offer from Bell Resources, the Bell Group energy offshoot, is due to be decided today. The outcome will be determined by the response of the National Companies and Securities Commission to orders sought by BHP that the offer was defective and improperly registered.

Once the court action is over, Bell is expected almost immediately to seek to register a less contentious offer document.

Bell Group owns Associated Communications (ACC) in the UK as well as Australian interests in the media, transport and heavy equipment distribution. It included its equity share of earnings from the almost half-owned Bell Resources and from J. N. Taylor Holdings, an industrial investment offshoot, which yesterday reported a tenfold increase in net earnings from A$609,000 to A$6.16m for the half-year.

Bell Resources, early this year, reported net earnings for the 12 months to December of A$107m against A$50.5m, of which A$69.5m (A$25.4m) fell in the six months covered by the Bell Group report.

The underlying figure produced by deducting the apparent associate inputs shows Bell Group advancing from about A$14m to A$18m, although this ignores dividends from the two associates or holding costs associated with the investments.

Bell Group's turnover rose 28 per cent to A$361m.

Equity-accounted investment income moved from a deficit of A$591,000 to A$41.8m profits after charging A$67.97m of apportioned overheads (A$19.01m previously) to gross investment income of A$109.76m (A$18.42m).

Pre-tax earnings came to A$89.6m compared with A$38.32m, with the apparent equity share included up from almost A$20m to about A$50m. Tax was A$32.9m compared with A$6m, with about A$12m (A$200,000) reflecting the associates.

The net result excludes extraordinary profits of A$49.14m from the sale to pop star Michael Jackson of ACC's Northern Songs music publishing offshoot. Last year's A$34m of gains related solely to its equity share of Bell Resources' extraordinaries.

The Bell Group interim dividend is effectivly doubled with a 5 cents a share payment on capital increased by a bonus issue. This was drawn from adjusted profits per share of 35 cents against 16 cents.

J. N. Taylor is itself to make a two-for-three scrip issue, although new shares will not rank for the increased interim dividend of 5 cents a share (3.5 cents previously).

Genting shows its first fall in earnings for 17 years

BY WONG SULONG IN KUALA LUMPUR

GENTING, the Malaysian casino, hotel and plantation group, showed a 6 per cent fall in 1985 net profits to 101m ringgit ($40.4m) — its first reversal since it started operations 17 years ago.

Turnover rose 10.5 per cent to 435m ringgit. Genting blamed the Malaysian economic recession for poorer profits, and added that earnings for the current year are unlikely to improve.

Earnings would have suffered a bigger decline if not for a sharp rise in investment and interest income which rose 30 per cent to 27.8m ringgit.

Asiatic Developments, Genting's listed plantation subsidiary, saw profit after tax falling by 29 per cent to 9.6m ringgit.

Genting is paying a final tax-free dividend of 7.5 cents, making a total of 16.5 cents for the year (taking 29.7m ringgit) compared with 14.5 cents (25.4m ringgit).

Japanese retail store lifts sales and net income

BY YOKO SHIBATA IN TOKYO

MARUI, Japan's largest credit sales department store, lifted unconsolidated pre-tax profits by 27.2 per cent to Y29.82bn ($16.7m) in the year to January.

Net profit improved by 22.8 per cent to Y17.78bn. The company ascribed the better-than-expected performance to sales expansion supported by younger customers, as well as an improving financial position which more than offset costs for expanding sales outlets.

Marui has boosted profits for 23 consecutive years.

Sales overall advanced 18.2 per cent to Y357.34bn, with those of its mainstay men's and women's wear rising 23 per cent. New service business, including consumer credit and insurance, moved up by 13.8 per cent.

The annual dividend was lifted by Y1 to pay Y16. For the current year Marui forecasts a pre-tax profit increase of 7.3 per cent to Y32bn.

TVB performance improves

BY DAVID DODWELL IN HONG KONG

HK-TVB, Hong Kong's leading television company, yesterday reported attributable profits for 1985 of HK$232m (US$29.7m), a 13.5 per cent improvement on 1984 profits of HK$204.3m.

The group's performance, affected by a small exchange loss compared with a HK$12m gain in 1984, was slightly below market forecasts. Turnover during the period rose by 15 per cent, from HK$806m in 1984 to HK$928m last year.

Confidence in HK-TVB has been unsettled in recent months by a government controversy about a ban on cigarette advertising on television. In addition, plans for the introduction of cable television have raised fears that past strong growth may not be sustained.

The group's shares have slipped from HK$8 apiece in November last year, to close at HK$5.35 yesterday.

Sir Run-Run Shaw, chairman of HK-TVB, made no reference to these controversies yesterday. Cable television is now seen to be less of a threat, but a ban on cigarette advertising remains possible, and would damage earnings.

Sir Run-Run, who also heads the Shaw Brothers film company, nevertheless forecast continuing growth in 1986.

Pick 'n Pay suffers from tight margins

By Jim Jones in Johannesburg

PICK 'N PAY the South African supermarket chain, increased turnover by slightly more than inflation in the year to February but suffered from significantly narrower trading margins.

Turnover rose 17.6 per cent to R2.14bn ($1.02bn), but the pre-tax profits were up only 3.9 per cent to R66.07m and net earnings were R35.48m against R33.50m.

Along with other retailers, Pick 'n Pay has suffered from a deterioration in the discretionary spending power of consumers. Spending on high-margin consumer durables has weakened, despite the authorities' stimulatory reduction of interest rates and relaxation of hire purchase regulations.

The emphasis of consumer spending has shifted towards non-durables, which generally bear lower margins.

The company's plans to develop hypermarkets in Australia have been stymied by the refusal of unions to work on the construction of a store planned for Melbourne in protest at South Africa's apartheid policies. In Brisbane, however, Pick'n Pay's existing hypermarket reached profits ahead of expectations.

Domestic sales growth continues to outstrip that of its principal competitors and the company has an active stores opening programme.

Earnings rose to 181.3 cents a share from 171.2 cents and the total dividend has been increased to 92 cents from 83.5 cents.

Yamaichi takes Commerzbank stake

YAMAICHI SECURITIES of Japan has bought an unspecified amount of shares in Commerzbank of West Germany, Reuter reports from Tokyo.

A senior underwriting manager at Yamaichi declined to say, however, whether the purchases are connected with Commerzbank's plan to list its shares on the Tokyo Stock Exchange later this year.

Singapore Land lower

BY OUR FINANCIAL STAFF

SINGAPORE LAND, one of the island's leading property development companies, has continued the earnings decline which set in last year. Because of the persistently depressed state of the local property market, it sees no hope of an upturn before its current financial year ends in August.

First-half net profits fell 18.4 per cent to S$8.87m (US$4.1m), on gross revenues which were 16.8 per cent lower at S$33.45m. On a per-share basis, earnings were 9.16 cents compared with 11.79 cents.

No interim dividend has again been paid by the company.

Thorn EMI offshoot gains strength

BY P. C. MAHANTI IN CALCUTTA

GRAMOPHONE COMPANY of India, the local offshoot of Thorn EMI of UK, is being nursed back to health under the management set up by Mr R. P. Goenka and his merchant bankers partner, Mr Udayan Bose, after they both took charge of the company under an arrangement to provide working and development capital.

Mr Bose, the new vice chairman and effective chief executive, says the company is well set to turn the corner because of strengthened marketing efforts and a diversification plan to make new products which have a ready market at home and export prospects.

Mr Bose has forecast profits of 7 per cent on a turnover of Rs 320m ($26.2m) for the current year, rising to 8 per cent on an expanded turnover of Rs 410m in 1987-88, and a still higher rate the year after when sales are likely to reach Rs 490m.

During these three years, music will continue to be the mainstay of the business, but with the implementation of diversification plans the proportion will go down. New products planned will include audio tapes more kinds of audio equipment and a range of household equipment.

INTERNATIONAL COMPANIES and FINANCE

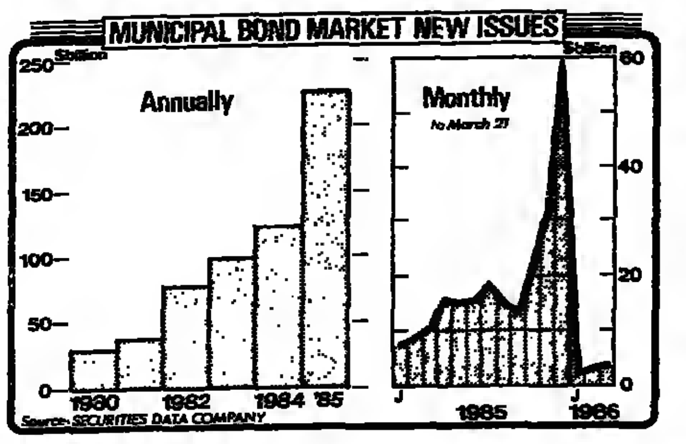
William Hall looks at the background to turmoil in the US municipal bonds market

Tax-exempt status survives another attack

NOT SINCE the default of the Washington Public Power Supply System (WPPS) during the summer of 1983, has the US tax-exempt bond market been in such a state of turmoil as it was last week.

For a brief period last Wednesday trading in the $700bn plus US tax-exempt bond market used by local municipalities to finance everything from bousing to hamburger stands, came to a complete halt.

New York City suspended its $450m issue of general obligation bonds because of the "chaotic conditions" in the market and several smaller issues were pulled. Yields soared and some specialised mutual funds suspended redemptions temporarily because they could not value their tax-exempt portfolio.



The reason for the market's heart attack was simple. Senator *Bob Packwood*, the Republican chairman of the Senate Finance Committee, who is in charge of crafting a Senate version of a tax reform bill, had done the unthinkable and proposed that the interest received on US tax-exempt securities be subject to a *minimum* tax rate of 20 per cent.

The big attraction of the US tax-exempt market and the reason for its heady growth rate over the last few years is that investors do not pay Federal income tax on the interest they earn. This has no particular appeal to the overseas investor but it is an attractive perk for high tax payers in the US and also means that municipalities can borrow considerably more cheaply than would otherwise be possible.

The reason why this rather cosy state of affairs has been allowed to persist for so long is embedded in the US constitution. In a landmark ruling in 1895, the Supreme Court ruled that the Federal Government will not tax the states and the latter will not tax the Federal Government.

Over the last decade two things have happened which explain why this relationship is under attack and why 1986 is likely to prove a watershed year for the tax-exempt bond industry.

First, the volume of new issues has soared from less than $30bn a year in 1980 to a massive $227bn last year, and the proportion of tax exempt money raised for private purposes, such as industrial revenue bonds, has grown even more rapidly. At times the latter have accounted for as much as 60 per cent of long-term tax exempt issues. A growing number of people accept that this is an abuse of the system and should be curtailed.

The second factor is the huge US budget deficit. As congress grapples with ways to trim spending and raise revenues, the tax-exempt bond market is a natural target.

Senator Packwood, who has had more than a little encouragement from the US Treasury, has decided that the time is ripe to challenge one of the sacred cows of the US financial system.

He is convinced that the tax exempt bond market is being used by the wealthiest Americans to shelter their income against taxes. He estimates that some 80 per cent of all tax exempt interest is received by individuals with minimum incomes of $100,000.

Senator Packwood's proposal to make interest on new and existing issue of tax-exempt bonds subject to tax caused uproar. The Public Securities Association, which is leading the fight against any tampering with the markets' privileges, says that "any kind of tax on municipal bonds will be the kiss of death for local and state governments and their taxpayers whereever they live."

The association estimates that if such a proposal was passed it could cost local and state governments anywhere between $8bn and $24bn in extra borrowing costs by 1990. If the tax exempt status is abolished the association calculates that borrowing costs will rise by 50 to 75 basis points and given the appetite for funds of many local entities, this could be expensive.

In the face of the mounting criticism from state governments and Wall Street, the committee decided on Monday to shelve Senator Packwood's radical plans. The committee voted not to subject outstanding tax-exempt bonds to tax but left open the question of whether it would recommend that taxes be aplied to newly issued bonds.

By the beginning of this week the tax-exempt bond market was begining to recover from last wek's traumas. But investors are keeping a weather eye cocked for fresh trouble from Washington.

Although Senator Packwood's proposal has sunk from sight, an impressive group of politicians, ranging from Mr James Baker, the US Treasury Secretary, to Mr Bob Dole, the Senate majority leader, have indicated that they support some form of taxation on municipal bond interest.

Until the impact of the US tax reform plans on the tax-exempt market is clarified, new issue volume is likely to continue at current abnormally low levels, and investors are likely to suffer from occasional bouts of the jitters as they try to read the smoke *signals* coming from Capitol Hill.

Further easing on Euroyen issues

By Yoko Shibata in Tokyo

THE JAPANESE Ministry of Finance is further to liberlise the issue of Euroyen bonds from April 1, in order to fulfil a pledge to the US made in the wake of the bilateral agreement on exchange rates in May 1984.

As part of the new measures:

● Three Japanese credit agencies — Nihon Koshasai Jobo, Japan Credit Rating Agency, and Nippon Investors Service—will qualify as rating authorities for Euroyen bonds in addition to Standard & Poor's and Moody's of the US.

● Foreign corporate borrowers will require only a rating of single A or higher. Current eligibility rules covering net worth ratios and net assets for so-called Samurai issues, are to be abolished.

● Japanese companies will be allowed to enter the floating rate and currency conversion sectors. Currently, resident Euroyen issuers are limited to straight, convertible and warrant bonds.

● Rules which prohibit issuers from bringing proceeds into Japan for 180 days will be eased to allow a 90-day waiting period. Euroyen issues—which totalled only Y70bn ($391.4m) in 1982—soared to Y1,585bn in 1985, thanks to the implementation of a series of deregulation measures.

The new system will mean that about 60 foreign companies will become eligible for the first time to issue Euroyen bonds.

By allowing Japanese resident companies to use floating rate and currency conversion facilities, the number of Japanese issuers is expected to increase. These sectors have been open to non-resident issuers since June 1985.

By shortening the repatriation delay to 90 days, Japanese investors will be able to invest more easily in Euroyen issues by foreign borrowers.

Buyers trickle back to Eurodollar sector as dollar strengthens

BY CLARE PEARSON

THE STRENGTH of the dollar on the foreign exchanges gave a boost to the Eurodollar bond market yesterday, and four issues were launched.

Some dealers felt that, though issues were moving slowly, selective retail buying interest was returning as investors adjusted to fixed rate bonds with coupons of around 8 per cent. Japanese institutions were the main buyers, as the new deals had payment dates after the Japanese fiscal year-end.

Union Bank of Switzerland brought a $300m five-year bond for Belgium. The issue was priced at 101⅛ with a coupon of 7⅞ per cent to give an initial all-in cost of 40 basis points over comparable Treasury notes. Belgium will swap the proceeds into borrowings in D-marks and Swiss francs carrying interest at a rate below London interbank offered rates (Libor) and will use these to refinance outstanding debt.

Dealers felt the terms on the issue were tight, especially as the bonds were in registered form and in large denominations of $250,000 and, therefore, not likely to appeal to retail Continental investors. Trading levels outside fees of 1⅞ per cent were quoted.

There were two issues for Japanese borrowers. LTCB Finance issued on its own behalf a $100m seven-year bond with a coupon of 8 per cent, priced at 100⅞, guaranteed by the Long Term Credit Bank of Japan. Firm interest from Japanese investors was reported.

Best Denki, the Japanese electrical appliances retailer, launched a $45m bond with equity warrants. The issue has a five-year life, par issue price, indicated coupon of 4 per cent and an indicated 2½ per cent exercise premium on the warrants. These terms are the same as those on the $50m deal for Restaurant Seibu announced on Monday. Final terms will be set on April 3. The issue traded at 112½ bid yesterday afternoon, while Restaurant Seibu's issue was bid at 113.

Following last week's issue for Manufacturers Hanover, which pays interest at ⅛ per cent over three-month Libor, Merrill Lynch brought another US bank, Norwest, to the dollar floating rate note market. The $100m 12-year issue, priced at par, pays 1/16 per cent over three-month Libor and has front-end fees of 60 basis points. The issue has a borrower's call option from the third year onwards. Demand was said to come chiefly from Japanese investors. The bonds traded within the fees.

Two issues were launched into the Ecu market. These issues came on terms which seemed to anticipate the expected fall in interest rates, which has acted as a deterrent to new issues recently.

The Kingdom of Denmark issued an Ecu 250m 10-year bond, with a coupon of 7⅞ per cent and price of par. There is a borrower's call option after five years at 101½, and thereafter at declining premiums. Kredietbank International Group led the deal.

Dealers felt the terms were aggressive even for a sovereign borrower, and the bond was reportedly bid at levels outside total fees of 2 per cent.

Nederlandse Gasunie, the national Dutch gas company, issued 50,000 warrants into seven-year 7½ per cent Ecu bonds, and 125,000 warrants into seven-year 6 per cent Dutch guilder bonds. The warrants are priced at Ecu 26 and DFl 16 respectively, and are both exercisable between April and November this year. Morgan Stanley was lead manager for the Ecu warrants, while Amsterdam-Rotterdam Bank led the guilder warrants.

Some dealers felt the Ecu warrants were expensive, and they were quoted at around Ecu 23 bid. The guilder warrants were bid at 15½.

The West German and Swiss secondary markets were both quiet.

Study clears futures trading of distortion

BY ALEXANDER NICOLL

A STUDY commissioned by US exchanges into the effects of stock index futures and options on underlying equity prices has backed the contention that they do not cause unwarranted distortions on expiry dates.

The effect of contract expiries—called the "third Friday syndrome" because of the day in the month on which most options and futures contracts expire—has been hotly debated in the US.

Responding to claims that investors are hurt by the sharp price movements attributed to arbitrage with futures and options positions, the Securities and Exchange Commission has already imposed "telescoping" on some contracts. This is the progressive reduction of maximum positions allowed as expiries approach.

The study was commissioned by the National Association of Securities Dealers, which operates the US over-the-counter share market, the Chicago Board Options Exchange, and the New York, American, Pacific and Philadelphia stock exchanges. All trade index options.

Authors of the study were Mr Hans Stoll, a professor at Vanderbilt University in Nashville, Tennessee, and Mr Robert Whaley, of the universities of Alberta and Chicago.

They concluded that "the evidence on the magnitude and frequency of expiration day price effects is not sufficiently compelling to warrant changes in expiration day procedures."

After looking at every expiry date since the contracts were first launched, they said stock market volume and volatility was highest on the quarterly dates when stock index futures expire, rather than the monthly dates for options.

Heavy trading on such days is caused by huge buying or selling programmes associated with arbitrage. Securities houses enter orders for every stock in an index in order to complete arbitrage positions set up when they perceive anomalies between the levels of the stock market and futures or options prices.

The study's authors say the effect of such activity on stock market prices is concentrated in very short periods of time, sometimes in the last 15 minutes of trading. They acknowledge that "unknowing traders who appear with market orders to sell when an expiration is pushing prices down or to buy when an expiration is pushing prices up may be hurt." But they could equally be helped by the phenomenon.

Telescoping, say Mr Stoll and Mr Whaley, reduces the effectiveness of futures and options in hedging, and increases the cost of arbitrage.

They also argue against proposals to settle index contracts in a manner other than cash, saying that the alternatives would be more expensive. They oppose use of a settlement price other than the day's close—for example, the average of several prices taken during the expiry day—and also say that spreading out expiry dates would not reduce the effects of expiries.

Merrill Lynch acts to deter predators

By Our New York Staff

MERRILL LYNCH, the world's biggest brokerage firm, is following in the footsteps of BankAmerica Corporation and *Chase Manhattan* and plans to introduce some powerful measures to deter hostile predators.

Merrill, whose share price has been fuelled by takeover talk in recent months, revealed yesterday that it was to seek shareholder approval at its annual meeting next month for a series of anti-takeover measures. These included a rule requiring the approval of 80 per cent of all shareholders for any merger with a company that owns 5 per cent or more of Merrill Lynch.

Among other measures proposed are the introduction of a staggered re-election of directors and a rule that special shareholder meetings can be called only by a majority of the board.

Merrill says the proposals will "discourage disruptive tactics" by a potential suitor and will encourage any suitor to negotiate with the Merrill board which will "be in a better position to protect the interests of all the stockbolders."

Merrill does not know of any stockholder who currently controls 5 per cent or more of the company's shares. Although aware of recent rumours that it may be the subject of an acquisition, Merrill says that to the best of its knowledge "there is no basis for such rumours."

Until recently US banks and financial services companies have appeared insulated from the wave of takeovers which has been sweeping across corporate America over the last 18 months. But there are signs that *this isolation is beginning* to crumble. The speculation has been fuelled by the recent unsuccessful attempt by Mr Sandy Weill, the former president of American Express, to take control of BankAmerica, the troubled West Coast banking group.

Last week, *Citicorp* announced a surprise bid for Quotron, a computerised financial information firm which has caused considerable consternation among some of Quotron's customers, several of whom are major competitors of Citicorp, America's biggest banking group.

Merrill Lynch, which earned $224.3m on revenues of $7.1bn last year, is less profitable than some of its peers in the brokerage industry and its return on equity has slipped from 20 per cent-pluls in the early 1980s to 5 per cent in 1984. Last year it recovered to 10.5 per cent, but this is still lower than average and has made the firm vulnerable to a possible takeover, say analysts.

Daewoo Heavy plans issue of convertibles

Daewoo Heavy Industries said yesterday that Nomura International and Goldman Sachs International would be lead managers for an issue of convertible Eurobonds in the next few months, Steven B. Butler reports from Seoul.

This will be the second convertible bond issue from a Korean company and has been keenly anticipated in Seoul. Samsung Electronics made an issue in December last year.

Daewoo said the exact amount, terms, and timing had yet to be determined, but that the issue would be more than $30m. It will be listed on the Luxembourg Stock Exchange, and an unspecified portion would be available for private placement in the US.

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UK COMPANY NEWS

Prudential Corp. expands by 40%

PRE-TAX profits of Prudential Corporation climbed by nearly 40 per cent in 1985 from £78m to £108.6m, with attributable profits almost 70 per cent higher at £76.1m, against £45.2m.

The dividend for the year is increased 15.5 per cent from 22.5p to 26p.

Pre-tax profits from the long-term business rose marginally in sterling terms from £136.1m to £137.7m. Good rises in profit from Ordinary business and the life business of the re-insurance subsidiary Mercantile and General and a slight rise in group pension profits were offset by falls from industrial business — 1984 contained 14 four-weekly periods — and the effects of currency movements.

The general insurance business showed an overall improvement with underwriting losses cut by almost one-fifth from £161.4m to £131.6m and the trading loss by a third from £79.8m to £53.4m. However, the underlying picture was one of swings and roundabouts.

In the UK, premium written rose by 18 per cent, the underwriting loss was cut from £54.8m to £47.8m and the trading loss was down from £30.2m to £25.2m. Underwriting losses on domestic property were slightly lower and very much reduced for commercial business.

But losses on the motor account, the problem area for British insurance, were up from £5.6m to £7.7m. A further increase in motor premium rates of 8 per cent is due next week following two increases made in February and October of last year.

There was a sharp deterioration in the profitability of overseas general insurance operations, with Canadian business moving from an £8m trading profit to a £6.8m trading loss. In the EEC, the trading profit in Belgium was offset by poor experience in other countries.

● **comment**

Pru's results were slightly better than expected thanks to e higher than anticipated transfer to shareholders from life profits. There was a repeat, at a lower level, of 1984's special life transfer as the Pru smooths the way to future more stable life profits. The improvement in general insurance results from 1984's bloodbath was expected, led by large loss reductions from the reinsurance subsidiary. However, there are still problems in the UK with household insurance and motor accounts—though further rate increases on motor insurance should hopefully stop the decline. However, the Pru has still a long way to go and the rise in the share price to 892p, yielding 4.2 per cent gross, on a day of extreme market weakness is as much a reflection of hopes for further improvement this year as the actual recovery last year.

AB Elect falls to £3m in first half

HIGHER depreciation and finance charges resulted in a fall in pre-tax profits by AB Electronic Prodncts Group from £3.42m to £3.04m in the six months to the end of December 1985.

Trading profit came out higher at £6.45m, against £5.368m. However, depreciation took an increased £2.67m (£1.53m) and finance charges rose to £737,000 (£407,000). Turnover was £70.24m (£59.92m).

Earnings per share were 9.6p basic (11.7p) and fully diluted 9.5p (11.3p). The interim dividend is unchanged at 2p.

The directors say that witb several major products coming to fruition in the coming months and a considerable number of enquiries, the outlook for 1987 is very encouraging.

● **comment**

AB Electronic Products has always been coy about the proportion of its turnover going to IBM, but some estimates put it at about 50 per cent and recent cuts in demand have undoubtedly hurt. It does AB credit to have survived loss of sales from three major customers — *IBM*, *Sinclair* and Arorn — without losing turnover, but overcapacity in the sector brought the inevitable squeeze on margins and the depreciation charge on last year's heavy capital spending rubbed salt into the wound. With £6m likely for the current year, and the shares down 25p at 285p, the prospective p/e ratio is 15 after a 38 per cent tax charge. AB is diversifying into important new markets such es the automotive and defence industries. The benefits of this move will become apparent next year, but the share price is elready looking ahead.

Restructuring costs depress Rockware

EXCEPTIONAL costs of nearly £2.5m have severely depressed Rockware, the glass manufacturer, in the 1985 year. Pre-tax profits tumbled from a restated £3.17m to just £61,000, and the company's shares fell 12p to 38p.

The charge above the line was mainly due to restructuring—the closure this year of two furnaces at Knottingley, West Yorkshire, and the reopening of a newer mothballed furnace—for a total cost of £2.39m.

There is again no dividend—none has been paid since 1982.

Sir Peter Parker, the group chairman, said that 1985 "was a year of consolidation after dramatic recovery." The financial position again strengthened and borrowings fell from £29m to £27m at the year end.

In glass, the principal activity, the second half showed a sizable gain, but the results were "dominated by the problems of excess capacity, our own and that of the industry," according to Sir Peter.

"Excess capacity has led to weakening prices. With imports rising through 1985, with improving technology and productivity, the gap between UK supply and demand is widening once more."

Sir Peter also commented on the glass industry in the light of the battle for the Distillers drinks company, which owns half of United Glass. "The structure of the industry as a whole is coming under inexorable pressure for change. Major competitors are facing actual or potential change of ownership." The New Zealand entrepreneur Mr Ron Brierley has a 5 per cent stake in Rockware and a near 25 per cent stake in Redfearn National Glass.

Turnover fell from £124.17m to £120.58m, and the loss for the year, after tax £235,000 £879,000 (profit £2.81m). In extraordinary items, came to £789,000 (profit £2.81m).

● **comment**

The City yesterday was in no mood to cope with an attributable loss from Rockware, nor did it like being deprived of a dividend, and the shares fell by over 20 per cent to 38p. The problem was not et the operating level, where profits were slightly higher despite difficult markets. Indeed given the dwindling glass prices end increases in capacity, Rockware need not be ashamed of an 11 per cent decline in glass profits. The real upset was the exceptional cost of closing two furnaces and of opening a third, which were far higher than anyone had bargained for. While the outlook is not bright for the glass industry, Rockware seems determined to fight for its share of the market. Meanwhile its secondary businesses — plastics in particular — are making strong strides forward. However, with no yield and with the prospect of dilution ahead when the preference shares are converted, e recovery in the shares is not in sight.

Canning hit by interest charges

W. Canning, the Birmingham-based manufacturer and supplier of speciality chemicals, metals and electronics, suffered e setback in the second six months of 1985 and for the full year saw its profits fell by 79,000 to 1.86m.

At the interim stag profits were marginally ahead and the directors were looking for an improvement for the year as a whole.

Turnover for the 12 months improved from £47.36m to £53.85m and at the trading level profits pushed ahead by 321,000 to £2.46m.

Pre-tax profits were struck after taking account of a £400,000 rise in interest charges to £613,000.

Earnings slipped from 9.95p to 6.03p but a final dividend of 2.4p (same) lifts the net total from 3.5p to 3.55p.

Tax accounted for £785,000 (£377,000) and minorities for £54,000 (same). Extraordinary items took £34,000 (added £185,000).

The chemical companies matched the strong performance of the previous year, with the exception of the US subsidiary Marston Bentley where order cancellations resulted in a greatly increased loss.

The metal refining subsidiary incurred a net loss of £250,000 because historically low precious metal prices reduced gross margins.

The French electronic component distribution activity had a profitable year but in the UK, HB Electronic Components, the group's USM quoted subsidiary, only achieved a breakeven position, compared with previous profits of £167,000.

The subsidiary is passing its final dividend leaving shareholders with 0.5p (1.25p) for the year.

● **comment**

In the last year or so W. Canning has been the victim of many a bid rumour. This batch of results will do little to discourage its predators and the City, torn between disappointment at a poor performance and the prospect of a fully fledged bid, shaved just 5p off the share to 123p. Canning implemented stringent cuts in the early 1980s and returned to the scalpel as soon as trouble loomed last year. The priorities for 1986 are to restore the loss making divisions—precious metals, US chemicals and French electronic components—to profitability. But the company is also keen to expand the recently acquired US medical division, both through organic growth within the dental field and by acquisition into the veterinary sphere. Meanwhile the chemicals product range will be expanded and the emphasis within oil services switched from exploration to production. Assuming that this is accomplished and that predators are kept at bay, the City expects a recovery in profits to £3.5m and a p/e of 10.5 for the coming year.

Manson Finance

Manson Finance Trust, a financial services company, reports slightly higher taxable profits of £676,000, against £644,000, for six months to end-1985.

Earnings per share, after tax of £259,000 (£232,000), improved by 0.2p to 1.4p. The interim dividend is up from 0.625p to 0.75p.

Beazer on target with 61% rise

C. H. Beazer (Holdings), the housebuilder, property developer end contractor which won control of French Kier construction group in January after a fierce contest, has announced a 61 per cent jump in pre-tax profits for the six months ending December 1985.

On turnover ahead from £65.84m to £139.56m the pre-tax result improved by £4.05m to £10.66m, and is in line with the £24.5m forecast for the year to June made at the time of the £144m offer for French Kier.

Beazer's directors are lifting the interim payment by 0.6p to 4.6p, and have forecast a total dividend on the existing share capital of not less than 14p (12p) for the year to June 1986. They also intend to proceed with the deferred two-for-one scrip issue.

Stated earnings per 10p share improved from 20.3p to 22.5p.

Mr Brien Beazer, the chairman, looking ahead, says the enlarged contracting activities will make a substantial contribution to results. The full year figure will include a five month contribution from French Kier, and on this should compare favourably, he states, with the £7.35m pre-tax it reported for the six months to June 1985.

The offer for French Kier became unconditional after the end of the period.

Beazer's own housebuilding activities during the period performed well, with in excess of 2,000 units sold.

Tax took £3.52m (£2.32m), minorities £313,000 (£143,000), and there was an extraordinary credit of £1.03m (nil)

● **comment**

The acquisition of French Kier was another step towards fulfilling Mr Brian Beazer's ambition of turning yesterday's West Country housebuilder into tomorrow's Tarmac. Even with just five months of Kier and financing charges of £2m, total profits post-acquisition this year should be £31m, putting the group firmly in the construction sector's second division. With the shares down 4p at 628p, the prospective p/e ratio is 13½ after a 35 per cent tax charge. The rating reflects the controversy over the prospects for the construction industry and the extent to which the shares represent an investment in Mr Beazer's abilities rather than his company's fundamental trading prospects. The group nevertheless looks modest-rated against others in the sector, particularly on a 1987 view when Kier will be in for the full year.

M. Box swaps packaging interests with Carnaud

BY DAVID GOODHART

Metal Box has ended a seven-year-old cross-shereholding arrangement with the French packaging company Carnaud SA.

It announced yesterday that it will transfer to Carnaud the 19.3 per cent holding in Carnaud Emballage and its 12 per cent interest in Envases Carnand in exchange for Carnaud's 40 per cent interest in Metal Box Europe. As part of the transfer Carnaud will also pay to Metal Box about FFr 45m (£4.3m).

Metal Box Europe is the holding company for Metal Box's Italian and Greek subsidiaries. Following the restructuring Metal Box will hold 99.9 per cent of the Itallan company and 93.4 per cent of the Greek company. Despite the swap the two companies will continue witb several technical licensing agreemants.

Mr Nigel Gibson, Metal Box's director responsible for Western Europe, said: "Metal Box's strategy is to continue to expand and develop its packaging business in Western Europe, taking advantage of its long standing associatinn with Carnaud."

KIO lifts stake in Barratt

By Lionel Barber

The Kuwait Investment Office has lifted its stake in Barratt Developments, the house builder, to 11.8 per cent.

Mr Robert James, Barratt finance director, said yesterday that the company bad been fully informed about tha KIO's buying, but he had no idea why it had increased its stake in the past fortnight from well under 10 per cent.

The KIO first acquired a stake of around 6½ per cent more than two years ngo, Mr James said. Barratt, whicb declared first half pre-tax profits of £7.52m (£4.1m) on turnover of £213.7m (£272.8m), last week, closed at 134p, up 2p.

A & G's chairman sells his 51% stake to Halma

BY DAVID GOODHART

Halma, the security and safety systems group, has agreed to acquire 51 per cenr of A & G Security Electronics, the burglar alarm producer, from its chairmen Mr Gererd McNamara for about £2.8m. He can take up to £1m in casb and the rest in Halma shares — 1.167m new ordlnary are heing issued.

Halma has also extended its bid to the remaining A & G shareholders—valuing the whole company at ebout £5.6m if the cash alternative of 50p a share is aecepted. The ahare offer is 10 Halma for every 49 A & G.

In the half-year to January 31 1986 turnover of A & G was dnwn from £1.95m to £1.65m and profit from £405,000 to £301,000 following the termination of e major DIY burglar alarm kit order. Halma in the year to March 31 1985 made pre-tax profit nf £3.89m on turnover of £24.8m.

EBC tops £1m

Pre-tax profits nf the EBC Group expanded from £382,000 to £1.12m in 1985 from turnover £11.89m ahead at £56.17m.

Earnings per 50p share surged from 6.7p to 18.8p and a final dividend of 4.5p lifts the net total by 1.55p to 7.15p. A scrip issue on a nne-for-four basis is also proposed.

Interest charges rose by £78,000 to £478,000. The group provides management services to companies engaged in the construction industry. Its share are traded on the USM.

BAe rises by 25% and order book over £5bn

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

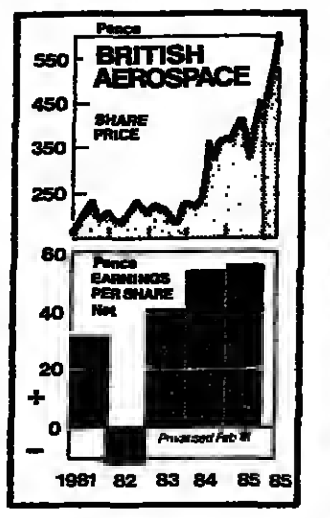
British Aerospace, the aircraft, missiles and space group, earned pre-tax profits of £150.5m in the year to last December 31, about 25 per cent more than the previous £120.2m.

Announcing this yesterday Sir Austin Pearce, chairman, said that sales during 1985 amounted to just under £2.65bn, 7 per cent more than in 1984, with exports accounting for 61 per cent of the total.

The directors are proposing a 10p (8.4p) final dividend, which brings the total for the year to 15.8p (13.65p). Stated earnings per 50p share are up from 53.5p to 56.4p.

At the end of the year, the outstanding order book was worth just under £5.14bn, compared with £4.82bn at end-1984. This figure does not include the £5bn of orders expected to accrue from the agreement with Saudi Arabia signed last year to provide Tornado and Hawk jets and support services to that country.

Giving details of the company's business activities, Sir Austin said that both the military aircraft and guided weapons sectors again showed increased profits, at £136.4m and £111.6m respectively.



But the civil aircraft sector incurred a loss of £4.9m (after writing off launching costs on various projects of £51.6m), which reflected strong competitive conditions in airline markets and the strengthening of sterling against the US dollar during 1985.

Space activities achieved a profit in the second half year, but for the year as a whole there was a loss of £2.5m.

Commenting yesterday on the new generation of Airbus projects in which BAe is interested, the short-to-medium range A-320 and the long-range A-340, Sir Austin said the group was not yet in a position to make up its mind on participation, or to seek Government launching aid, until it had studied market prospects and costs now being prepared by Airbus Industrie.

These detailed studies will be completed in May, and BAe will then study them. Later in the summer, it would be for the board to consider whether, and when, to make any formal approach to the Government for launching aid, if the group decided to join in those new ventures.

No formal approach to the Government had yet been made, said Sir Austin, although the group had discussed the matter informally with officials.

"We want to be part of them (the new ventures)," he said, "but we will look at the situation in a strictly commercial fashion when we have got all the detailed information we want about the market and costs from Airbus Industrie."

See Lex

P & O up by over £35m at year-end

Peninsular and Oriental Steam Navigation produced an increase in pre-tax profits last year from £90.2m to £125.6m, much in line with analysts' expectations.

The results are the first since the merger with Sterling Guarantee Trust in February 1985. Earnings per share were up by 51 per cent from 23p to 24.9p, and Sir Jeffrey Sterling, the chairman, says the dilution caused by the merger has been extinguished after only one year.

The pre-tax figure is after the allocation of £3m to the group profit sharing scheme. P & O's 1984 figures have been restated to reflect the merger. With a final dividend of 10p, the total for the year is 16p (14p).

Sir Jeffrey says 1985 was "an exciting year." While Overseas Containers (OCL), the shipping company in which it has a 47 per cent stake, would be unlikely to repeat its record performance, "I would expect other parts of the group to achieve further growth in 1986."

Turnover of P & O totalled £1.63bn against £1.64bn, with operating profits at £154.2m against £122.3m. Container and bulk shipping, mostly comprising the OCL interest, contributed £34.4m (£22m) and service industries (exhibitions and catering) the same (£26.6m).

Passenger shipping accounted for £13.1m (£4.8m), but Sir Jeffrey says P & O Cruises' results are again disappointing, in view of the big investment in the new Royal Princess. Passenger profits mostly stemmed from North Sea Ferries and Scottish Ferries.

The cruise operation was being reorganised to improve its competitiveness, he says. Oriana, at the end of her economic life, was being withdrawn after 25 years, and £8.5m had been provided in the accounts, mainly to cover redundancy costs.

Sir Jeffrey says such massive extraordinary costs made it harder to consider new investment. "This business operates in a highly competitive market and it must ensure that its operation costs, including labour costs, are held to levels which enable it to prosper."

He repeats his half-year comment that the return on the total cruising investment continued to be unacceptable. "Every effort is being made to ensure a realistic basis for the future development of the company." He says cruise profits should exceed £20m a year.

OCL's record year, with an individual contribution to group profits of £32.5m (£24m), stemmed to a large extent from favourable currency movements and to a lesser one from lower finance charges.

Other major contributors to trading profits were housebuilding, construction and development with £30m (£26.5m), and investment property income with £25.2m (£23). P & O's stakes of 13 per cent in Ocean Transport and 20.3 per cent in European Ferries were strategic trade investments, and he declines to say whether these would be increased.

Net borrowings at the end of the year were £281m, with shareholders' capital and reserves at £743m. The stronger balance sheet, he says, augured well "for consistent growth in the future."

Attributable profits were £88.4m against £200.000, with the 1984 figures affected by £57.4m of extraordinary and capital items, mainly fleet write-downs in line with the depressed shipping market. Retained 1985 profits were £46m against a 1984 loss of £27m.

UK auctions boost BCA

IMPROVED trading by UK auctions was the main factor in the 33 per cent rise in taxable profits for British Car Auction Group in the six months to the end of January 1986. Profits increased from a restated £3.53m to £4.77m.

Mr David Wickins, chairman, says that there was some progress in the US auctions during the period.

From earnings per 10p share of 3.8p (2.96p), the interim payment is being increased from 1.25p to 1.5p.

● **comment**

While these interim figures suggest that British Car Auctions is seeing a welcome if slight upward trend in commission margins, the main gains this time seem to have come from the newly included Sandgate leasing activities in the US plus the improved performance of associate Attwoods. From leasing the group gained £1m (against a zero contribution last time) and from the latter just over a £1m pre-tax against about three-quarters of half that previously—altogether some £1.3m pre-tax. As interest payments were broadly £300,000 higher these figures suggest that the core businesses actually performed only marginally better. Front-end loading of U.S. integration costs plus adverse dollar movements probably account for the most of the drop. Given the expectation of 2,000 car sales a week, equal to a one-fifth rise in UK volumes, through the new auction centre at Blackbushe as from next month, the analysts are sticking to forecasts of £14m pre-tax which puts the shares at 125p, down 7p, on a prospective multiple of 10. There doesn't seem much to go for in the shares, however, unless market rumours of a move to sunnier climes or a major purchase are substantiated.

LASMO up 19% but cuts exploration budget

London & Scottish Marine Oil (LASMO), one of the UK's larger independent oil companies, yesterday reported a 19 per cent rise in net profits to £37.7m for 1985, but said that it planned to cut at least £50m from its capital expenditure budget in the current year, with the reduction coming primarily in exploration activities.

Mr Chris Greentree, group chief executive, said: "LASMO will still apply its strict economic criteria to new projects to meet profitability targets even with crude prices below current levels. All new projects will have to show a satisfactory return to shareholders."

The profit rise for the year to December 31 was achieved largely thanks to the company's highest ever net production levels. An average of 45,800 barrels of oil equivalent per day (boepd) was 28 per cent a head of the 1984 level, and in the first month of the current year this was passed with an average rate of 51,500 boepd.

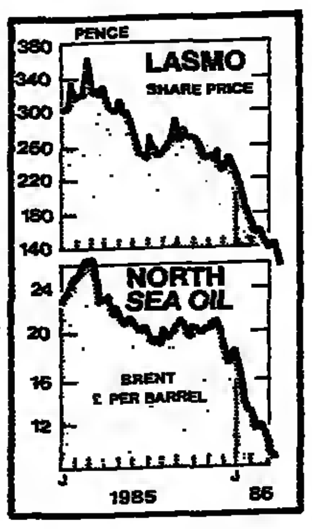
Overall production in 1986 would be no worse than last year, said Mr Greentree, and might be better.

Sales from production also reached record levels in 1985, showing a 21 per cent rise to £303.3m. Traded oil added a further £44.7m (£24.9m) for a total turnover figure of £348m (£275.5m).

Mr Robin Adam, the chairman, said that through the financial measures over the past year, including the transaction with Rio Tinto Zinc which gave that company a stake of 25 per cent in LASMO, the group's equity base had expanded and brought gearing down to 30 per cent. He put net debt at £100m.

The dividend for the year is held at 12.2p per share with an unchanged 7.7p final. Earnings moved ahead from 29.7p to 31.3p.

Reviewing the year's trading,



the chairman said that a highly successful exploration programme produced more than 130 new oil and gas wells. LASMO also participated in 17 new field discoveries and now has production from 33 fields worldwide.

The increased revenues reflect the strong contribution from the Beatrice field in the UK and the Lalang field in Indonesia, as well as higher production from Australia and North America.

Three new oil fields will be coming on stream in 1986 in Indonesia, together with the commencement of production from the recent Colombian and Australian discoveries, increased production from the Rijn field, Netherlands and higher production levels in North America.

Drilling activity this year will be substantially reduced from the record 1985 level of 322 wells. The economics of drilling with oil prices at their current depressed levels does not support an extensive exploration programme. The company at present is committed to drill fewer than 10 wells.

The tax charge for the year was slightly down at £80.3m (£81.5m), and the dividend on increased capital will take £20.1m against £13.8m. After an exchange losa of £16.3m (profits £16.5m), retained profits amount to £99.5m (£95m).

See Lex

Standard Chartered at £268m

Standard Chartered, the London-based bank, yesterday revealed the full extent of damage inflicted by both the weakening of the US dollar in 1985 and the sharp depreciation of tha rand.

Taxable profits rose by 12 per cent from a restated £240m to £268m but Lord Barber, the chairman, said that if exchange values had remained constant then £58m would have been added to the result.

The restatement took account of the reduced shareholding in the South African-based Standard Bank Investment Corporation (Stanbic), now treated as an associate. Excluding Stanbic, the growth in pre-tax profits was 25 per cent.

Below the line — tax was £125.5m (£130.8m) — there were extraordinary credits of £15.7m (debits £26.7m), which boosted attributable profits to £148.4m (£73.4m).

The dividend total is being increased from 28.5p to 30.5p through a bigher final payment of 20p (19p). Earnings per share were 85.3p (64.4p).

Profits were struck after a lower provision of £101m (£137m) for bad and doubtful debts, which were partly helped by the strength of sterling and certain provisions no longer required. "Welcome improvements were experienced in several business areas which more than offset the well-publicised problems in Singapore and Hong Kong, and of the tin crisis," the chairman said.

Expanding on the tin crisis, be said that in the international tin market it bad left behind it "some disturbing precedents for all those engaged in international finance. Standard Chartered's direct and indirect exposure was modest, but the wider implications of this disorder around the world have yet to be fully digested."

Elsewhere, he said that as a bank with close ties with the developing countries of Africa and Asia, "we welcome the new approach to the Third World debt problem which the US Secretary of the Treasury, Mr James Baker, outlined last September."

Standard Chartered undertook four capital market transactions which provided it with US$1.1bn and £150m of primary capital. Taken in conjunction with the capital raising and changed shareholding proportion in Stanbic, by the year-end the primary capital ratio stood at 7.7 per cent as compared with 5.5 per cent at end 1984.

Total assets employed in the group were almost unchanged at £28.8bn, with exchange rate factors offsetting underlying growth.

● **comment**

Standard Chartered's figures, and the dividend increase, were better than the market expected, though as usual it is not entirely clear bow the bank makes its money. The sharp rise in UK profits was partly thanks to a strong return to profit by the commercial banking business. More important was a good performance by the International Banking division which includes the Euro-currency and foreign exchange activities. The only drawback is that most of these profits are dollar-denominated and translation to sterling knocks the gilt off. The bank has also had severe problems in Singapore where a weak economy led to sizeable losses and Pan Electric caused a £18m bad debt. Provisions have also had to be made regarding the Tung shipping group in Hong Kong. With profits so vulnerable to exchange rate movements, let alone problems in the Third World, forecasts can be only round number guesses, and £300m is the figure analysts are looking for. The shares, down 2p yesterday at 542p, yield over 6 per cent, and are still subject to bid rumours, limiting the downside.

Utd Newspapers rises to £35m

United Newspapers, which acquired the Express group titles last October via a £317m takeover of Fleet Holdings, yesterday unveiled its results for the 1985 year showing profits some £2m ahead of City expectations.

From a turnover £117.8m higher at £312.27m the enlarged group raised its profits at the pre-tax level from £26.71m to £34.91m.

As indicated at the time of the takeover the final dividend is being lifted from 9p to 10p which makes a net total of 16p, compared with 1984's 14.5p. New shares issued in exchange for Fleet shares rank for the final.

The results for the past year include Fleet Holdings as a related company (20.6 per cent) for hte period from February 13 1985 and as a wholly-owned subsidiary from October 16.

The figures for the comparable year have been increased by £30,000 following a change in acconnting policy for intangible assets.

Dr David Stevens, United's chairman, says prospects for 1986 and beyond, taking into account the growth expected from recent acquisitions and long-standing businesses, should offer rewarding and exciting oportunities to shareholders, employees and managers.

He remains confident of the future success of the group but says "It is essential that the redundancy plan and new house agreement currently being negotiated are implemented in full to enable the Express titles to compete on reasonably even terms with other nationals, most of which will still enjoy a much lower cost base."

During 1985 trading in all divisions was at a satisfactory level in spite of signs of sluggishness in the US economy and generally static circulations in the UK.

United Provincial Newspapers produced an extra 34 per cent of profit and the magazine sector showed advertising revenue up overall.

Tax was little changed at £11.23m (£11.6m) but extraordinary items took £1.43m (added £7.56m).

● **comment**

With the Express on board, United Newspapers are at the centre of the struggle for the middle-brow market being laid siege to by Eddie Shah's Today. This time 2½ months of Fleet contributed enough (over and above the amount looked forward to from the 20 per cent minority interest held for most of the year) to help United come in well ahead of the £31m forecast at the time of the takeover. Without the consolidation of Fleet for this brief period then United would probably have come in £1m or so ahead of the forecast. The extent of the battle with Today and others is best indicated by the group planned promotions spend of £15m for 1986. The initial burden of the costs revolution at Express will show up in the balance sheet with advance pre-acquisition provisions of £45m or more to pay for the 2,500 redundancies recently announced. Outside of Fleet Street, regional papers, United's original base, showed profits gains on static sales and magazines (Morgan-Grampian) improved. Profit forecasts for this year have had to be cut sharply in the light of the promotion campaign and the continued carrying of high overheads at Express Newspapers. The analysts are looking for £45m and the shares, in spite of some support from the 7 per cent yild at 323p, could be high risk bnt dull performera until next year.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div.	Total for year	Total last year
AB Electronic ......int.	2	—	2	—	8
Aquascutum	1.7	June 6	1.5	2.5	2.25
Arncliffe	0.1	—	0.1	0.1	0.1
BCA Group ......int.	1.5†	July 31	1.25	—	3.25
C. H. Beazer ......int.	4.6†	May 16	4	—	12
Wills Group	3.5†	July 1	5.5	6	6
Booker McConnell	7.75	July 1	6.25	12	9
British Aerospace	10	—	8.4	15.8	13.65
Bryant Holdings ......int.	1.2	May 15	1.1	—	3.3
W. Canning	2.4	July 1	2.4	3.55	3.5
Clifford's Dairies	4.7	May 16	4.2	7.2	6.4
Close Brothers ......int.	2.8	May 2	2.63	—	7.38
Combined English	4.26	—	2.94	6.71	4.9
Comcap	0.9†	—	0.6	1.5	1
John Crowther	0.5	Aug.	—	2	—
EBC Group	4.5‡	May 1	3.6	7.15	5.6
Equity & Law	5.7	July 1	4.6	6.7	5.6
Estates & Gen.	1.68	May 28	1.55	2.5	2.3
Eucalyptus Pulp	7‖	—	151	7	15
Goal Petroleum	1	—	1	1	1
HB Electronic	nil ‡	—	0.75	0.5	1.25
Iceland Frozen	4.4	May 23	—	6.6	—
Johnson Cleaners	16.3	—	15.42	20.5	16.6
Keep Trust	2.63††	—	1.88**	4.5	3.75**
LASMO	7.7†	—	7.7	12.2	12.2
Linread	1.5	May 19	0.5	2.5	1.5
Manson Finance ......int.	0.75	—	0.63	—	1.5
John Maunders ......int.	2.4	Apr. 30	2.25	—	4.5
P. & O.	10	May 12	9	16	14
Pressac Holdings ...int.	0.7	May 21	0.7	—	2.2
Prudential	17	May 28	15	26	22.5
Southampton IoW	12	—	10	18	14
Standard Chartered	20	—	19	30.5	28.5
Sunbeam Wolsey	3a	—	3	4	4
Telfos Holdings	1.61	May 16	1.38*	2.75*	2.16*
United Newspapers	10†	—	9	16	14.5
Wolstenholm Rink	5.25†	June 4	5.25	7.75	7.75

Dividends shown in pence per share except where otherwise stated. * Equivalent after allowing for scrip issues. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock. ¶ Including 5p special. ‖ Gross throughout. ** Adjusted for share consolidation. †† On reduced capital. a Irish pence throughout.

Crest Nicholson calls for £17m for faster growth

Crest Nicholson, property developer and builder, has announced a £17m rights issue, which is intended to increase the pace of growth in the group's property division.

Since tha year end the company acquired Pearce, another house builder and property concern, which it says has given it scope to expand its share of the residential property market especially in the south of England, and has strengthened its position in the commercial property market.

Furthermore, the effect of lower interest rates and more mortgages on the housing market, as well as the opportunity of various commercial developments with "considerable potential for future profit" have made a rights issue appropriate, the company says.

Crest remains confident that 1986 will be a good year, and is forecasting a dividend of 4.75p for the year to October 1986, payable on the enlarged capital. Last year Crest had pre-tax profits of £9.2m on turnover of £110m, while in the yaar to May, Pearce announced profits of £3.3m on turnover of £56.2m.

The terms of the issue are one-for-five at 140p, compared to a pre-announcement price of 166p. The issue has been underwritten by Barclays Merchant Bank, and the joint brokers are Grieveson, Grant and Scrimgeour Vickers.

UB bid for Imps given go-ahead

By Lionel Barber

United Biscuits yesterday declared that its £2.4bn offer for Imperial Group was final and would not be extended beyond April 11, unless it received enough acceptances to go unconditional.

The statement followed a decision by the Department of Trade and Industry not to refer United's agreed bid for Imperial, the target of a hostile bid from Hanson Trust, to the Monopolies Commission.

The United board, led by Sir Hector Laing, considered lifting its offer yesterday but elected to focus on swinging Imperial shareholders behind its bid for the next fortnight. United said that it intended to recommend a 9.5p total dividend for the present year to January 1987, a 19 per cent rise on 1985.

Sir Hector said that the forecast offered shareholders a 17 per cent advantage in income compared to the Hanson offer. He added that any difference in the value of the competing bids would be bridged by the overwhelming commercial logic of the United Biscuits-Imperial merger proposal.

Hanson's bid is still higher than United's. Shares in Hanson closed last night at 176p, down 3p, valuing its shares and convertible stock offer at 361p and its shares and cash offer at 329p. United shares closed at 237p, up 1p, valuing its shares, cash and convertible offer at 332p. Imperial closed at 342p, down 5p.

Mr Martin Taylor, Hanson director, pointed out yesterday that United had failed to make a profit forecast for 1986. He suggested that it could mean United itself was vulnerable to a bid threat and needed to retain defensive ammunition.

He added that United's decision to extend its bid to April 11 only, on the 42nd day of the bid was a defensive move linked to United's agreement to indemnify its advisers, Morgan Grenfell for purchasing Imperial shares. Sir Hector denied this.

Hanson, which said on Monday, that it spoke for 28.9 per cent of Imperial, can still buy a further 5.8 per cent in the market under Takeover Panel rules. United said last Friday that it spoke for 21.89 per cent.

King & Shaxson tops Irving's bid for rival

By John Moore

King & Shaxson yesterday launched a bid for rival discount house, Smith St Aubyn, topping an earlier offer from Irving Trust, the US banking group.

The surprise bid came just one week before the Irving Trust offer was due to go unconditional. Smith St Aubyn's directors had recommended the Irving offer, but now recommends the one from King & Shaxson.

Mr Ralph Gardiner, a Smith St Aubyn director said yesterday that the move by King & Shaxson "may well trigger another bid." K & S's bid is 3p per share higher than Irving's cash offer.

In the deal the consideration has been determined by the establishment of a formula asset value, which is the net tangible assets attributable to each share as at the close of business on the day at which the offer becomes or is declared unconditional.

Assuming a formula asset value of 46p estimated by the board of Smith as at March 21 1986, the consideration will amount to £12.3m.

The acquisition by K & S which would be one of four remaining quoted independent discount houses after the deal, would increase its capital base and create a medium-sized discount house.

Bid approach to Jonas Woodhead

Jonas Woodhead, the group which specialises in the manufacture of vehicle suspensions, said yesterday that it had received a bid from another company broadly in the same sector.

The board said that another announcement would be made as soon as practicable but in the meantime shareholders are advised to take no action. No further news is expected until after Easter.

Folowing a loss of £1.16m in the year 1984-85 the company recorded pre-tax profits of £540,000 in the half year ended September 30 1985.

UK COMPANY NEWS

Iceland Foods rises 29% despite adverse weather

Iceland Frozen Foods yesterday marked its first full year as a public company with an announcement of a 29 per cent rise from £2.97m to £3.83m in taxable profits for 1985.

Mr Malcolm Walker, chairman of this frozen food retailer, says the rise has been achieved "despite unfavourable summer weather, which affected sales of seasonal lines, and a food inflation figure of only 2 per cent." Turnover rose from £65.24m to £82.32m.

An inaugural final dividend of 4.4p is proposed, making a total of 6.6p. Earnings per share were 24.4p (19.99p), after tax of £261,000 (£118,000).

Profits for 1985 returned, as forecast, to a more normal split between the two half years and this is expected to continue.

Mr Walker says that physical expansion continued throughout the year with 16 new stores opened, including three relocations.

In addition, in December 4 IFF purchased 12 stores from the receiver of failed freezer centre chain, Orchard Foods. While this had no impact on the results, the stores are now trading profitably and are in the process of being refitted in the Iceland style.

He says that IFF has continued to develop its own label product range which he believes, in terms of innovation and design, is one of the keys to the future successful growth of the company.

Looking ahead, he says that trading for 1986 has started well and plans for new stores are on target, although more openings will be in the second half of the year.

● comment

Iceland has wasted little time since its flotation, putting its capital to good use with a flurry of store openings. The City added 4p to the share yesterday to close at 562p. Luckily for its shareholders Iceland has shown that it can combine adaptability with acquisitiveness. Throughout 1985 it responded to the trend towards healthier eating by erasing additives from most of its product range, slapping stickers on the 85 per cent of products that are additive free. The growth of "singles meals"—the 1980s version of the TV dinner—and of more esoteric frozen food eating should flatter margins, as should its expansion into the less cost conscious South. The flotation cash pool is already exhausted and Iceland plans to increase gearing from 5 per cent to 40 per cent this year in order to finance an ambitious capital expansion programme of new store openings, extending the central supply depot and "Conranising" all the new stores. The City expects profits of £4.6m and a p/e of 21 for the coming year.

Aquascutum rights to raise £6m

ALONG WITH the announcement of a near 45 per cent rise in 1985-86 profits Aquascutum Group says it is calling on shareholders for £5.95m net to fund further expansion.

The directors point out that during the past five years group capital expenditure has amounted to some £7.6m, including the purchase in 1985 of a new head lease of its Regent Street headquarters.

The cash being raised is via a rights issue of up to 10.13m new A shares. Terms are one new share for every two ordinary or A held at 60p per share. The issue is not being underwritten.

The year to January 31 1986 saw turnover rise from £33.65m to £37.86m and profits at the pre-tax level push ahead by £545,000 to £1.77m — the group manufactures and distributes quality clothing.

Demand and forward orders indicate that the upward trend in trading will continue this year.

Earnings improve from 3.08p to 4.87p per 5p share and a final dividend of 1.7p net on both the ordinary and A shares lifts the total from 2.25p to 2.5p. There is also a 1.75p additional dividend on the £1 preference shares. The directors intend to maintain the increased ordinary dividend in the current year on the enlarged capital.

Tax for 1985-86 accounted for £769,000 (£586,000). Earnings attributable to shareholders emerged at £1.26m (£1.02m) after taking account of a £2,000 (£1,000) minority interest and adding in extraordinary items of £270,000 (£382,000), being an overprovision of tax in prior year.

The directors say the rights issue will provide for continuing expansion of the group's activities including the possible acquisition of businesses in related areas.

They add that no specific acquisition is being planned.

Provisional allotment letters will be dispatched on April 9.

Losses at US associate hit Wolstenholme

Losses from its US associate has depressed the 1985 results of Wolstenholme Rink which has announced a fall in pre-tax profits from £1.69m to £1.3m, and an extraordinary provision of £1.45m has been made against all possible losses from this source, the directors state.

The directors are holding the final dividend at 5.25p, making an unchanged 7.75p total.

Turnover improved from £21.51m to £23.65m. Interest charges were down at £456,000 (£464,000), but profits were after associate losses of £398,000 (nil).

The group's 49 per cent share of the losses of Omnicrom Systems of the US and Omnicrom in the UK totalled £648,000.

Yearlings lower

The interest rate for this week's issue of local authority bonds is 10¾ per cent, down ¼ of a percentage point from last week and compares with 12⅛ per cent a year ago. The bonds are issued at par and are redeemable on April 1, 1987.

A full list of issues will be published in tomorrow's edition.

Bryant anticipates further growth as profits rise 9%

Bryant Holdings yesterday reported a 9 per cent increase in interim profits and anticipated further progress for the full year despite last month's extremely cold weather, which delayed the company's building operations.

On turnover of £77.1m, against £65m, taxable profits for the six months to end-November 1985 advanced from £5.61m to £6.12m. Bryant is engaged in property investment, homes and property development and construction.

The interim dividend has been raised from 1.1p to 1.2p, covered comfortably by earnings ahead from 3.8p to 4.7p per share.

Bryant says the turnover increase was principally due to the construction division, which continued to operate successfully through steady expansion in traditional markets and by further growth in the south.

The planned expansion of Bryant's land bank in the south is being continued. This will increase borrowings, resulting in higher second half interest charges. These were up from £100,000 to £753,000 in the first half.

Estates & General rise

Estates and General, property investor and developer, saw taxable profits rise by 10.4 per cent in 1985 to a record £1.4m. The improvement came despite the high interest rates prevalent throughout the year which saw interest charges rise from £1.72m to £2.32m.

The directors are to recommend a higher final dividend of 1.675p against 1.55p, taking the year's total to 2.5p (2.3p). Earnings per 20p share came to 6.6p (4.3p).

Turnover was up from £3.97m to £5.72m, with gross rental income ahead 12.7 per cent at £2.4m.

Shareholders' funds advanced to £26.3m against £24.9m, or 144p against 136p per share. This included a revaluation surplus of nearly £1m on the property portfolio which now stands at nearly £35m.

After a tax charge £293,000 lower at £182,000, attributable profits came out at £1.2m (£787,000). The ordinary dividend will account for £454,000 against £418,000, leaving retained profits of £737,000 (£360,000).

A. Martin calls for £2m via rights issue

Albert Martin Holdings, the clothing manufacturer and distributor, yesterday unveiled a near 23 per cent increase in full year profits and plans to raise £2.1m via a rights issue.

The profit improvement—up from £1.12m to £1.38m pre-tax—has been accompanied by a higher final dividend of 2.4p (2p), which lifts the total payout for 1985 to 3.6p (3p). The company expects to at least maintain this dividend level on the enlarged rights capital.

Most of the profit rise stemmed from UK activities which increased operating profits from £932,000 to £1.4m, offsetting a downturn in Far East contributions from £821,000 to £583,000. Interest charges were £24,000 lower at £608,000.

The company says that 1986 has started with orders at a "most encouraging level" and adds that the rights proceeds will provide the financial flexibility to pursue further long-term development. The rights, which has been underwritten, is on the basis of two-for-seven at 83p per share.

Turnover in 1985 rose by £4.22m to £38.8m. Earnings per share were 11.9p (9p) after tax of £228,000 (£237,000)—extraordinary debits were virtually halved to £60,000 (£110,000).

Telfos beats profit forecast with £1m

Telfos Holdings, manufacturer of non-ferrous metal products, has beaten December's rights issue forecast with taxable profits of £1.03m for 1985.

The result compares with the £714,000 achieved in 1984 and the forecast of at least £975,000. It was attained on turnover ahead from £8.59m to £9.47m.

Earnings per share were 8.1p (6.9p) net. Shareholders are set to receive a higher final dividend of 1.61p, which makes a total of 2.78p (adjusted 2.16p).

Telfos says that during 1985 trading activity increased in both the non-ferrous metal and metal spraying divisions. The current year has started well despite difficult trading conditions in certain non-ferrous metal markets, and group profits to date are ahead of last year.

Comcap tops £5m and lifts payout

WITH second half profits up by £1.41m Comcap, supplier of IBM computer equipment, saw its full 1985 pre-tax figures rise to £5.19m, an improvement of 50 per cent over 1984's adjusted £3.44m.

Turnover pushed ahead from £34.47m to £53.7m and gross profits from £6.19m to £8.96m.

Pre-tax profits were struck after taking account of net interest charges of £567,000, up from £240,000, and administration and selling expenditure of £3.21m, against a previous £2.5m.

The final dividend is being lifted from 0.6p to 0.9p, giving shareholders 50 per cent more at 1.5p net per 5p share. Earnings came through at 20.32p, compared with 12.98p.

Tax took £718,000 (£805,000) and minorities £273,000 (£174,000).

Bensons back in black

FOLLOWING a £1.8m refinancing package in the first half, and an interim loss of £48,300, Bensons Crisps returned to profits in the second half. On turnover up by 21 per cent from £9.31m to £11.22m, the USM-quoted company reported taxable profits of £204,000, against losses of £837,000.

Earnings per 10p share came out at 2.9p (17.3p losses), but there is still no dividend. The directors say they intend to restart payments, last made in respect of 1983, as soon as possible.

The company is planning a rights issue to raise a net £742,000 with the issue of £2.62m shares at 30p on a one-for-two basis. The funds raised by the underwritten issue will be used initially to reduce bank borrowings.

With all three divisions of this maker of food products and animated models and displays making profits for the first time, the directors are confident that the company can consolidate in the present year.

They add that the recovery was achieved despite highly competitive conditions.

Operating profit came out at £401,000 (£285,000 loss) after depreciation of £274,000 (£228,000). The pre-tax figure was struck after net interest payable of £172,000 (£48,000) and exceptional items of £25,000 (£504,000). The tax charge was £65,000 (£8,000 credit).

Pressac rises by 51%

Pressac Holdings has increased interim taxable profits by 51 per cent from £410,938 to £620,278 on turnover ahead from £8.9m to £10.64m.

Earnings per share improved by 1.73p to 4.25p. The interim dividend is unchanged at 0.7p.

Mr J. B. Wagstaff, chairman of this electro-mechanical component manufacturer and precision engineer, says that during the six months to end-January 1986 orders increased despite a competitive consumer market.

Volume to the television industry, however, was reduced but is expected to improve in the final quarter. Demand is increasing in the automotive and telecommunications sectors, and precision engineering sales continue at a satisfactory level.

Interest charges for the first half amounted to £143,794 (£136,531). Tax was £250,000 (£174,000). Attributable profits, after minorities and preference dividends, were £340,113 (£210,265).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims:—Christy Hunt, Lucas Industries, Minerals Oils and Resources Shares Fund, Pifco, Precious Metals Trust, Really Useful, Tyzack Turner, H. Young.

Finals:—Associated Book Publishers, Aurora, Babcock International, BICC, Bridon, Britannic Assurance, Brown Boveri Kent, Forward Technology Industries, Gibbs and Dandy, Horizon Travel, Lowe Howard-Spink and Bell, Lyon and Lyon, Bernard Matthews, Metal Closures, Monument Oil and Gas, Readymix, Rotork, Stag Furniture, Steel Burrill Jones, Supra, Tricentrol, W.W. Weld, Arthur Wood (Longport), Woolworth.

UK COMPANY NEWS

Johnson Group nears £8m with help from the US

IMPROVED sales and margins from its UK drycleaning and textile rental activities, together with a significant contribution from the US operations, enabled Johnson Group Cleaners to lift 1985 profits by 17 per cent to a record £7.78m pre-tax.

And from earnings of 37.58p (36.81p) shareholders are to receive a final dividend of 16.3p making their net total 20.5p, against a previous 18.6p.

Mr Philip Bollom, the chairman, says the year was a period of growth in the drycleaning and textile operations both in the UK and the US.

The directors' policy of selling non-trading properties continued during 1985 and proceeds at year-end were in excess of £6.5m.

The 1985 year saw turnover rise from £70.29m to £89.59m with the dry-cleaning take up by £16.62m at £64.66m. The balance came from textile rental. The US operations generated sales of some £30m, or 33 per cent of the group's total.

Trading profits rose by 48 per cent to £10.54m—dry cleaning's contribution advanced from £5.64m to £8.19m.

Pre-tax profits were struck after taking account of a £1.45m rise in interest charges to £3.07m. Mr Bollom says profits would have been better still but for the effects of the rise in interest rates. 1984's results took in exchange gains of £555,000.

Tax took £1.01m more at £2.86m to leave the attributable balance at £4.93m, compared with £4.83m.

Extraordinary items added £2.67m (£475,000).

In dry cleaning, sales per shop and margins showed significant increases. The UK textile rental operation continued to show growth, and profit margins improved. Significant expansion was achieved in the US.

Johnson Group Cleaners, the largest drycleaning organisation in the UK, fought off a takeover bid from Nottingham Manufacturing in December 1984.

● comment

By getting rid of the loss-making London Linen Hire, and by adding some profitable dry cleaning businesses in the US, Johnson has done wonders with its 1985 operating profit, which is up 45 per cent. Such corporate activity has left its mark on the interest charge, and the advance in pre-tax profits was less remarkable, although perfectly acceptable to investors and the shares edged up to 535p. The weather in 1985 was kinder to dry cleaning than in 1984, and although the whole industry did well, Johnson's 10 per cent increase in turnover in the UK probably reflected some increase in its market share. The company is concentrating on quality, and is managing to keep its costs under tight control, while its shoe repairs concessions are having the double benefit of reducing overheads and increasing sales. During the last few months the shares have started to move ahead again, and are now on a historic p/e of 14.

CES up 34% to over £12m

A 34 per cent profits increase has been achieved in the 1985-1986 year by the Combined English Stores Group, a London-based multiple specialist retailer.

The rise — from £9.25m to £12.4m before tax — was attained on turnover ahead from £121.9m to £142.76m which, together with a near one and a half point improvement in margins, produced a £3.81m increase to £13.84m in operating profits.

Shareholders are set to receive a higher final dividend of 4.26p which lifts the total by 37 per cent from 4.9p to 6.71p. This total is almost twice covered by earnings per share ahead by 2.75p to 3.09p.

Interest charges for the year to January 25 climbed to £1.19m, against £1.27m, and the taxable balance also included a lower £777,000 (£1.26m) net profit from property transactions.

CES says that the year saw core activities, all of which operate in "highly competitive markets," produce record profits. In particular, the retail division, which includes Salisbury's, Collingwoods, Allens and Biba in West Germany, produced substantially higher contributions.

Attributable profits came out at £7.93m (£5.62m). Tax was £5.29m (£3.73m)

● comment

The born-again ladies hand-bag chain, Salisbury, is proving as successful as any of the High Street's refurbished stores. Indeed, a tripling of its profits was the main mover behind a commendable set of results from Combined English Stores. The company has now got rid of its loss-makers, and all of its remaining bits pulled together last year creating even advances. Collingwood is responding to treatment and exceeded last year's profits despite a larger-than-usual first-half loss. However, with the exceptional advance from Salisbury now behind it, CES cannot expect to grow quite so quickly in 1986, and if it makes £13.3m the shares at 217p are on a prospective p/e of about 14. Even after a sharp re-rating, the company is still regarded as a second-division retailer, which is probably justified, given that among its rag bag of businesses are such unfashionable ones as carpet wholesaling.

Booker surges to £47m and outlook encouraging

Booker McConnell, the agri-business, health products and food distribution group, raised 1985 pre-tax profits by 26 per cent and says the current year has started satisfactorily and the outlook is encouraging.

The improvement in 1985 reflected organic growth from the three main businesses and good contributions from recent acquisitions. The directors add that the results also confirm the success of their strategic reorientation and restructuring programme.

On the back of an 8.3 per cent rise in turnover to £1.19bn the group saw its profits for the past year surge from £36.8m to £46.5m.

And with earnings showing a 4.97p rise at 24.24p the final dividend is being lifted to 7.75p for a net total of 12p—33 per cent up on 1984's 9p.

Mr Jonathan Taylor, managing director, points out to shareholders that despite using a much less favourable year-end exchange rete of $1.45 to the pound the 1985 results exceeded the forecast of £45m pre-tax and earnings of 24p made last April at the time of the unsuccessful bid from Dee Corporation, the supermarkets group. The forecast was based on $1.22 to the pound.

At year-end Booker's balance sheet remained strong with net cash of £26m (same) after capital expenditure of £43m (£30m).

The group is continuing to build a modern food and agriculture business operating in growth sectors where it has, or can achieve, strong market shares. Mr Taylor says it will use its financial strength to make further acquisitions in areas which satisfy these criteria.

A divisional breakdown of 1985 pre-tax profits shows: agri-business £22.5m (£16.3m), health products £5.4m (£3.5m), food distribution £13.2m (£9.8m) and other activities £6m (£8m).

Thirty-five per cent of the profits were earned in the US and were translated at $1.45 ($1.16) to the pound.

A geographical analysis of profits shows UK £27.2m (£25.1m), US £18.1m (£8.2m) and other overseas companies £3.2m (£3.5m).

Interest charges rose from £0.3m to £2.4m and tax from £10.3m to £13.5m. Available profits emerged at £30.7m (£24.3m) after minorities of £2.3m (£2.2m).

There were extraordinary debits this time of £5.4m. This compares with credits last year of £17.6m which included £34.3m profits on the disposal of investments.

● comment

Booker has not merely beaten its defensive profit forecast, but done so with a little to spare and without switching to the more favourable average-rate method of exchange rate accounting. With the exception of a partial exit from the US health market Booker is evidently advancing speedily on a broad front, extending from Canadian fish farms to urban tree-planting. Retail margins in UK food distribution are now a respectable 3 per cent, and the balance of the wholesaling activity is being progressively shifted into the more profitable catering and convenience-store delivered segments of the market. Moreover, Booker is having some success with its own convenience operation "Zipin"; but the time will shortly come when this may conflict with the delivered wholesale business, and choices have to be made. The US agribusinesses are now more rationally grouped, and it would presumably not distress Booker if the organisational benefits were complemented by greater tax-efficiency. At any rate, a substantial dividend increase has not created the ACT problem that might previously have been a consequence. At 343p, only 5p the worse in a steeply falling market, the shares still yield only a fraction under 5 per cent.

Maunders profits fall by £80,000

A FALL of £80,000 to £856,000 in pre-tax profits is reported by John Maunders Group, house builder and estate developer, for the six months to December 31 1985.

The directors say the profit downturn was due to substantially higher interest charges—up from £259,000 to £462,000—arising from the size and value of the company's land bank, including the recent acquisition of six sites in Dorset and Hampshire.

The interim dividend is raised from 2.25p to 2.4p net—last year's total was 4.5p from pre-tax profits of £2.06m. Stated earnings per 20p share advanced from 7.6p to 7.9p.

Turnover was up by 40 per cent from £8.79m to £12.37m, and operating profits moved ahead by 10 per cent from £1.14m to £1.25m. Investment income was higher at £65,000 against £52,000. After tax down from £442,000 to £351,000 and minorities of £34,000 (£42,000), attributable profits came out at £471,000 compared with £452,000. Dividends absorbed £143,000 (£134,000), leaving retained profits of £328,000 (£318,000).

Mr John Maunders, the chairman, says the newly-acquired sites in the South are now fully operational and will contribute towards sales in the second half. He looks forward to reporting satisfactory trading results for the full year.

Clifford's advances 19%

Clifford's Dairies, processor and distributor of milk, dairy products and groceries, saw pre-tax profits increase by 19 per cent from £3.25m to £3.86m in 1985. Turnover, boosted by the acquisition of the other half of Associated Milk Products, increased to £84.58m, against £72.49m.

Earnings per share came out at 16.05p (13.29p). The directors are proposing a final dividend of 4.7p (4.2p), making a total of 7.2p (6.4p).

Operating profit was £4.5m (£3.7m) with associates adding a further £111,000 (£177,000). Interest charges were £764,000 (£637,000). Tax was £1.66m (£1.64m).

Carpets boost John Crowther

EXCELLENT results in the John Crowther Group's newly-acquired carpet businesses have resulted in substantially higher pre-tax profits for 1985. The Huddersfield-based textile manufacturer reports profits up from £514,000 to £1.83m.

Mr Trevor Barker, the chairman, says the move into carpet manufacture and the proposed move into carpet and textile distribution through the merger with MCD and the acquisition of WW, will create a base of future growth.

Crowther announced yesterday that it had bought the assets and goodwill of J. Barlow and Co (Nottingham) for a cash payment of £1m. The company will be merged with Crowther's Lennox Knitwear, which is also based in Nottingham.

Mr Barker, commenting on the year-end figures, says the original Crowther Group cloth and clothing companies, including Lennox and Regina—both acquired in February 1985—have performed well and their management have laid strong foundations for future growth in turnover and profitability.

He says the excellent results from the carpet businesses arise partly from the high level of sales, traditional in the period from October to December, but are regarded by the board as very encouraging in view of their previous results. The reorganisation of the carpet business is now well under way and current trading is on target.

The annual report, to be sent to shareholders in May, will contain a statement setting out the group's current structure and future strategy.

Turnover for 1985 improved from £10.87m to £37.98m. The pre-tax figure was after interest charges of £720,000 compared with £253,000. Tax increased from £57,000 to £159,000 and there were extraordinary debits of £89,000 (£60,000). The total dividend will be 2p with a final of 0.5p net.

Dividends absorb £321,000 against £137,000, leaving £1.26m (£260,000) for transfer to reserves. Stated earnings per 25p share climbed from 5.7p to 12.3p.

● comment

John Crowther's chairman, Trevor Barker, seems to be emerging as the new David Alliance of textiles. The ink is not dry on his agreement to buy MCD and WW, and already he is announcing his next acquisition—a Nottingham knitwear manufacturer with a turnover of £5m. In a sense, this latest acquisition could set the pattern for the year. To say that the carpets side of the business has grown rapidly would be an understatement, and it now faces a year of digestion and rationalisation. The clothing side, meanwhile, is now dwarfed by the group's other activities and needs fattening up to fit Mr Barker's strategy of establishing a broadly-based textiles business. In its present state, John Crowther could well produce £12m this year, but with paper flying around like confetti and the tax charge rising to 23 per cent, the earnings growth will be more modest. The shares, down 6p at 137p yesterday, nevertheless look conservatively rated on a prospective p/e ratio of 10.

Linread profits rise tenfold

WITH CANADIAN losses eliminated, and with a nine-month contribution from an acquisition, Linread saw taxable profits increase more than tenfold in 1985, but issued a warning on profits in the current year.

The result was £722,000 compared with £71,000, and the directors have recommended a final dividend of 1.5p for a 2.5p total. This is 0.5p higher than they envisaged at midway, and they believe it is a "prudent and conservative line." Earnings per share rose from 0.65p to a record 12.53p.

At the same time, they warn that short term progress will be limited by the added costs and disruption associated with the move of the commercial products division from its present Birmingham headquarters. "With the exception of our aerospace activity, the beginning of the current year is proving difficult, with weak demand in much of our businesses and competition remaining intense," they add.

Turnover rose from £13.6m to £15.14m in 1985. Group structure changed during the year with the sale of Surber Enterprises in Canada, and the acquisition of Sileby Engineering at Northampton. This "seems likely to prove a happy purchase." Traditionally, Linread has made cold forged fastenings.

Interest took less at £153,000 against £192,000, but the costs of the move, and the continuing high level of capital expenditure, will cause a temporary rise in borrowings in 1986. Gearing will reduce to a more acceptable level in 1987 with the proceeds from the sale of the Cox Street property and grant aid—at end 1985 it stood at 30 per cent. The higher levels of profitability then will enhance cash flow next year, say the directors.

Rise in selling costs cuts Wills Group profits

FOLLOWING a fall in pre-tax profits of 40 per cent by Wills Group, importer and exporter, the total dividend has been cut from 8p to 6p, with a proposed final payment of 3.5p, against 5.5p last time.

Turnover fell from £136.2m to £134.39m and gross profit came out higher at £7.54m (£5.55m). Selling and administration expenses, however, were much increased at £6.42m (£4.16m).

Pre-tax profits were down at £532,000 (£886,000) and earnings per share came out at 1.65p on capital increased by the shares issued to buy the outstanding capital of CT Group, against 4.8p last time.

A breakdown of pre-tax profits shows that only trade finance and technical sales were in profit with £1.06m (£1.97m) and £738,000 (nil) respectively. There was an import loss of £855,000 (£37,000) and a loss on commodities of £174,000 (£1.46m).

The results for the technical sales division comprised the CT Group since its acquisition on April 15 and were ahead of expectations. The trade finance division included a provision for a doubtful debt in Australia and a larger than normal stock writedown at the end of the year affected the import section.

Pre-tax profits included share of associates of £13,000 (£280,000) but was after interest costs of £309,000 (£254,000 received), results of discontinued activities £174,000 (£1.46m) and exchange losses of £220,000 (nil).

The tax charge was £835,000 (£609,000), minorities took £34,000 (nil) and there were extraordinary debits of £159,000.

Goal profits slide but payout held

Goal Petroleum, the oil and gas explorer and producer, saw taxable profits cut from £4.58m to £1.07m in the 1985 year. The dividend has been held at 1p in spite of a fall of more than 6p in earnings per share to 2.45p.

The chairman, Mr C. O'Brien, says that the final results were better than might have been expected after the £168,000 loss experienced at midway. The second half result reflected excellent production from the Buchan and Wytch Farm oil fields. There was no production from Buchan until May.

Turnover fell from £8.82m to £5.49m, and produced operating profits of £1.73m (£4.85m). Some £325,000 was written off an investment. Group reserves stood at £4.51m at the year end, compared with £4.03m, with retained profits down from £2.49m to £484,000.

Good drill results at Ennex

HIGH value drill results ranging up to 43.69 grammes gold per short ton over a width (thickness) of 4.32 feet have been recently obtained at the Curraghinalt prospect of Ennex International in the Sperrin Mountains of County Tyrone, Northern Ireland.

Mr Peter McAleer, chief executive, said at yesterday's Dublin meeting that the latest results from this potential gold mine strengthened the belief that ore reserves will be expanded this year from the previously reported 537,000 short tons grading 0.27 oz (8.4g) per ton.

"While the company is taking a conservative approach to the definition of ore reserves, the potential of this discovery and its likely impact on the future development of the company should not be under-estimated," he added.

CLOSE BROTHERS Group, formerly Safeguard Industrial Investments, achieved higher taxable profits of £1.15m, against £866,000, for six months to end-January 1986. Earnings per share were 5.58p (4.2p).

EUCALYPTUS PULP MILLS is paying a 7p gross dividend for 1985 but the timing of the payment will depend upon permission from the Bank of Portugal to remit the necessary funds and their subsequent receipt. In 1984 the company paid 10p and a special 5p.

Southampton IoW

Lower taxable profits of £1.28m, against £1.89m, were earned in 1985 by the Southampton, Isle of Wight and South of England Royal Mail Steam Packet, which provides shipping and road haulage services.

The company blames the fall on a number of factors: the container ship trade from Southampton was temporarily withdrawn, costs associated with two replacements, compensation to redundant tug crews and the refurbishment of one ferry.

Turnover was up from £9.93m to £9.42m. Earnings per share were 29.57p (38.52p). The final dividend is 12p (10p), making 18p (14p).

FT COMMERCIAL LAW REPORTS

Import ban on patented drug justified by public interest

IN RE AN APPLICATION BY GENERICS (UK) LTD
Chancery Division: Mr Justice Whitford: March 17 1986

WHEN SETTLING terms of licences of right in new existing patents, the Comptroller-General has a wide discretion to impose restrictions on the licensee and, whether or not there are exceptional circumstances, he may ban importation of the patented product from a non-EEC country if the public interest so requires.

Mr Justice Whitford so held when adjourning appeals arising out of applications by Generics (UK) Ltd for settlement of terms of licences of right under two patents owned by Allen & Hanbury's Ltd, in salbutamol and labetalol. The terms were settled by Mr Tarnofsky acting for the Comptroller-General of Patents. Allen & Hanbury's appealed because he rejected its plea that there should be no licence to import the patented material. Both parties appealed against the terms as to royalty.

Section 50 of the Patents Act 1977 provides: "(1) The powers of the Comptroller [in settling terms of licences of right] shall be exercised with . . . the following purposes: (a) that inventions which can be worked on a commercial scale in the UK and which should in the public interest be so worked shall be worked there without undue delay and to the fullest extent that is reasonably practicable; (b) that the inventor . . . shall receive reasonable remuneration . . . (c) that the interests of any person . . . working . . . an invention in the UK under the protection of a patent shall not be unfairly prejudiced."

* * *

HIS LORDSHIP said that salbutamol was a highly successful drug used in the treatment of asthma. It was sold by Allen & Hanbury's under the trade name Ventolin.

The patents were "new existing" patents and were therefore given an automatic four-year extension after expiry of their 16 years of life. After the end of the 16th year, however, the extended patents were to be treated as endorsed "licences of right" (see paragraph 4(2)(c) of Schedule 1 to the Patents Act 1977).

Generics applied to the Comptroller for licences "to do within the UK any act which, but for the licence, would be an infringement of the patent."

Although on the face of it it was seeking a licence which would cover manufacture and importation in general, in fact, it was only concerned to import, particularly from Italy.

Allen & Hanbury's sought exclusion of a right of importation.

Mr Tarnofsky, when settling the terms of the licence on behalf of the Comptroller, took the view that importation should only be banned if there were exceptional circumstances.

In *Gist-Brocades [1986] 1 WLR 55*, reported after Mr Tarnofsky made his decision, the House of Lords decided that the Comptroller might preclude or limit importation from non-EEC countries; and that questions concerning importation from EEC countries would have to be referred to the European Court of Justice for a preliminary ruling.

It considered other matters to be taken into account by the Comptroller in settling the terms of a licence of right.

Lord Diplock said at page 62 that the Comptroller's discretion to impose limitations and conditions was wide, and he had a discretion to include a term prohibiting or limiting importation into the UK. He said section 50 of the 1977 Act, which referred to public interest and public advantage when setting out the general purposes of the Comptroller's power, confirmed his conclusion that the discretion was wide.

Lord Templeman said the Comptroller had power to prohibit or control importation where it hampered exploitation in the UK; and where a patented product had been made in a country which did not grant reciprocal rights to an inventor.

In Italy no patent protection had been afforded to Allen & Hanbury's. "In these circumstances," said Lord Templeman, "the Comptroller is not bound to grant a licence to the importer . . ."

Generics was proposing to undercut salbutamol prices. Allen & Hanbury's had already concluded agreements with other companies to grant licences to manufacture or supply. The cheapest price at which any licensee was selling an inhaler was £1.85. Generics was prepared to sell at £1.30.

In an interim decision in *re FMC Corporation's application (unreported February 19 1986)* in which FMC sought a licence in respect of a Ciba-Geigy product including a right to import, Mr Justice Falconer said the material considerations were that the patentees were well-established in the UK in the manufacture and supply of the product; and that there was no suggestion that the patentees were not meeting all demands for the patented product.

Granting FMC a licence to import would inevitably mean that part of the demand would be met by importation and not by working the invention in the UK, he said—"That is a result quite contrary to the purpose set out in section 50(1)(a)."

Every word of what he said was applicable to the facts in the present case.

If Generics was allowed to import, the patentees and licensees would lose sales. Existing licensees were probably going to want to renegotiate. There would be a benefit to Generics in that it would be able to secure a foothold by selling cheaply into the market during the run-up to expiry of the patent.

It was in no way established that there would be any benefit to the public — a fall in price — in the short period before there was a free-for-all.

An interference of that character was calculated to prejudice a situation which it was in the interest of the public to preserve, namely a situation where the return to Allen & Hanbury's was going to be adequate to ensure continuity in research.

In the light of the guidance given in *Gist-Brocades* it was a case in which there should be a ban on importation from outside the EEC. That was plainly within the discretion of those who had to decide terms appropriate to licences of the present kind.

So far as any question of importation from within the EEC was concerned, that must remain in abeyance pending a ruling from the European Court.

A question arose as to whether it would be right in fixing the royalty to consider Allen & Hanbury's position as manufacturer.

Mr Walton, for Generics, argued by analogy with the case of *Patchett's Patent [1963] RPC 90* where it was decided that in fixing compensation for Crown use, loss of manufacturing profit could not be taken into account.

Mr Tarnofsky accepted that the Crown use provisions were closely analogous. He settled the royalty on the basis of what a willing licensor and willing licensee would regard as reasonable, ignoring as far as was practicable Allen & Hanbury's role as manufacturer.

He misdirected himself. The Crown use cases were concerned with compensation, not a bargain between a willing licensor and a willing licensee. In a royalty negotiation the position of the licensor as manufacturer must be one of the relevant matters to be brought into account.

Mr Tarnofsky also decided the royalty should be expressed as a percentage of Generics' selling prices to arms' length customers.

In the present case, with a temptation to cut and re-cut prices to get a foothold in the market, a fixed price per unit quantity sold was the better option. A royalty per unit of 30 per cent of Allen & Hanbury's prices would be proper.

If Generics still sought a licence to import from the EEC the appeal must stand adjourned until the decision in the European Court.

So far as the question of *importation from countries outside the EEC* was concerned, it would be appropriate to place a ban on such importation.

As to the labetalol licence, the position in all material respects was the same.

Both cases would stand adjourned.

For Allen & Hanbury's: Anthony Watson and Guy Burkill (Bristows, Cooke & Carpmael).

For Generics: Anthony Walton, QC, and Richard Hacon (S. J. Berwin & Co).

By Rachel Davies
Barrister

APPOINTMENTS

Dalgety forms cereal division

DALGETY UK has appointed Mr E. C. Humphreys as chief executive of a newly-formed cereals division. The cereals division will bring together the recently acquired businesses of Romix Foods and Pearce Duff with the existing milling division companies. Lucas Ingredients will be the other major operation in the new division. Several appointments have been made within the new cereals division: Mr Jack Rowell, chief executive of Lucas Ingredients will also assume responsibility for Spillers Premier Products; Mr Paul Brown will become chief executive for the home-baking businesses of Spillers Homepride, Romix Foods and Pearce Duff; Mr Malcolm Brown, chief executive of Spillers Premier Products, will take responsibility for the division's baking investments and will be appointed chief executive of Federal Bakeries when Mr Bill Underwood retires later this year.

Mr Geoffrey Nithsdale has been appointed director and general manager of FLEXICON SYSTEMS, a subsidiary of Cambridge Electronic Industries. He succeeds Mr John Hills who retires in June. He joins from Hughes Microelectronics, where he was responsible for the electronics connector division.

*

Mr John Padovan is to become a partner at DE ZOETE & BEVAN, stockbrokers, where initially he will be head of corporate finance. In due course he will assume overall responsibility for corporate finance at Barclays de Zoete Wedd. Mr James Titcomb, senior partner at de Zoete, is retiring. Mr Padovan was with Hambros Bank, and before that was chairman of County Bank.

*

At LINKLATERS & PAINES Mr Alan Barker, Mr Raymond Jeffers, Mr Stephen Edgington, Mr Christopher Johnson-Gilbert, Mr Michael Canby, Mr Keith Thompson, Mr Anthony Grundy, and Mr Tom Wethered will be joining the partnership on April 28. Mr Richard K. Bain and Mr Jean-Marc Lefevre of the Paris office are to be given the status of partner so far as current rules permit.

*

ROYAL INSURANCE (UK) has appointed Mr W. J. Ward and Mr W. G. Prince as assistant general managers.

*

Mr John Greenwood has been appointed financial director and company secretary of WILTSHIER CONSTRUCTION, part of the John E. Wiltshier Group.

*

H. H. PEGG has appointed Mr R. H. Urquhart to the board. He joined as a director of Pegg Board Sales in November 1984.

*

Mr Brian Edgeley has been appointed managing director of LHW FUTURES. He succeeds Mr John Hughes. Mr Nat Le Roux has been appointed to the board and will continue to head the research department.

*

Mr Mike Smith has been appointed managing director of the UK retail division of LAURA ASHLEY. He will join the main board of Laura Ashley Holdings from the beginning of April. Mr Smith has been with the company since March 1981, and is currently a divisional director.

*

BLUE CIRCLE INDUSTRIES has appointed Mr Jack Shepherd to the board. He continues as BCC deputy chief executive and marketing director.

*

TELCON PLASTICS, a division of Reed Packaging, has appointed Mr David Dean as managing director. He succeeds Mr C. J. Browne who has retired. Mr Dean was sales and marketing director of The Universal Grinding Wheel Company.

*

MARLBOROUGH PROPERTY HOLDINGS has appointed Mr S. S. Gillam to the main board. He joined Marlborough Property Holdings in 1974 as projects controller, and was subsequently appointed director of all its subsidiaries in 1982.

*

Mr Henry Scaldwell is to become deputy managing director of ASH & LACY on April 1, and Mr Mike Cartwright and Mr John Troman are to join the board. Mr Scaldwell joined Ash & Lacy in 1962 on the acquisition of Pratt Bro. He was appointed managing director of Joseph Ash & Son in 1973 and joined the board of Ash & Lacy in 1979 when he became responsible for the group. Mr Cartwright joined Ash & Lacy from Crittall-Hope in 1963, becoming director in charge of the production and technical department of Ash & Lacy Steel Products in 1972. He was appointed managing director of Ash & Lacy Steel Products in 1980. Mr Troman joined Ash & Lacy in 1965. He was appointed general manager of W. & S. Allely in 1965, a director in 1967, and managing director in 1972.

*

Mr Colman O'Toole has been appointed marketing director of PARK TONKS, Abington. He will have special responsibility for marketing a range of spray-dried nutritional ingredients, including instantised fat-filled milks, fat-filled wheys and speciality blood products for animal and human foods.

*

HUNT UNITED CORPORATION has appointed Mr James Webb as president. He succeeds Dr Ian Maycock, who has transferred to Dallas, Texas, where he will be responsible for Yemen Hunt Oil Company's exploration activities in the Marib Al Jawf area of the Yemen Arab Republic. Mr Webb joins from Kerr McGee where he was exploration manager for north-west Europe. In his new post based in London he will direct Hunt's exploration in Europe, Africa and the Middle East. Hunt United Corporation and Yemen Hunt Oil Company are wholly-owned subsidiaries of Hunt Oil Company, Dallas.

F.T. CROSSWORD PUZZLE No. 5,982

ACROSS

1 Beg a copper to ring (6)
4 Risk nice arrangement, all for sport (3-5)
9 A land bird (8)
10 A French male carrying dope made to strip (6)
11 Fifty are to work on the Rio Grande (6)
12 Form of protection for actor in a play (6)
13 "X" has clear backing (3)
14 An Irishman's occupied by fashionable colours (6)
17 This causes the listener some distress (7)
21 Clothed—and owing in consequence (6)
25 Churchgoers holding over brief (3)
26 She leads maybe, though lacking the brains (6)
27 Cook's supporter is English (6)
28 Letters of identification (6)
29 Writing the hotel a note is quite natural (6)
30 True as can be about valuables (8)
31 Regret taking exercise in break (6)

DOWN

1 A European will turn in before a beast appears (6)
2 Personal representation (6)
3 The tale one cadet spun (8)
5 May may dance (3-3)
6 An outfit holding nothing back is provoking (6)
7 Not one over? That's the idea! (6)
8 Has the wrong jacket (6)
12 Cuts in discounts (7)
15 The instrument was returned (3)
16 An article some people consider most helpful (3)
18 Charm will ensure entry! (6)
19 Think alcoholic liquor in tea rather peculiar (8)
20 He'll follow a hollow woman inside (6)
22 The economy calls for a little growth (6)
23 Foreign writer who may be put in care (6)
24 A pupil tells stories to make friends (6)
25 An innkeeper found this man stable employment (8)

Solution to Puzzle No. 5,981

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

CONTINUED OVERLEAF

AUTHORISED UNIT TRUSTS & INSURANCES

Perpetual Unit Trust Mngmt. (a)
48 Hart Street, Henley on Thames 0491 576868

International Growth	258.4	277.3	+4.1	1.15
Income	187.5	200.8	-1.5	4.98
Worldwide Recovery	144.4	155.0	+1.0	1.75
American Growth	69.8	75.0	+0.9	0.92
Intl. Emerging Cos.	78.1	83.9	+0.2	0.61
Far East Growth Fd.	62.0	66.6	-0.7	1.06
European Growth Fd.	55.8	59.9	+1.4	1.90

Prolific Unit Trusts
222 Bishopsgate, London EC2 01-247 7544/7

Prolific American Inc.	56.3	59.9	+0.8	4.85
Prolific Far East	142.2	152.9	+1.6	0.04
Prolific Extra Inc.	79.6	85.6	-1.0	5.01
Prolific C'vert & Gilt	96.0	101.8	-1.1	5.84
Prolific High Int	171.2	184.6	-2.6	4.12
Prolific Intl.	104.1	111.9	+0.7	1.30
Prolific N. Amer.	138.8	149.3	+1.1	2.01
Prolific Spec. Sits.	193.4	208.0	-3.5	1.36
Prolific Technology	113.5	122.0	-0.8	0.61

Providence Capitol Fd. Mgrs. Ltd
30 Uxbridge Road, London W12 8PG 01-749 9111

Japan Inc.	65.6	69.8	+0.8	0.00
Japan Acc.	65.8	70.0	+0.9	0.00
Worldwide Inc.	65.2	69.4	+0.5	1.40
Worldwide Acc.	65.9	70.2	+0.4	1.40
European Tst Inc.	80.9	86.1	+0.8	0.63
European Tst Acc.	81.1	86.3	+0.7	0.63
North American Inc.	57.5	61.0	+1.9	1.62
North American Acc.	57.9	61.7	+1.8	1.62
UK Equity Inc.	64.2	68.4	-1.1	2.65
UK Equity Acc.	65.8	70.0	-1.2	2.65

Provident Mutual Unit Trust Managers Ltd.
25-31 Moorgate, London, EC2R 6BA. 01-588 3963

PM Equity Growth	58.6	62.7	-0.7	7.96
PM Income and Growth	57.7	61.7	-1.1	4.47

Prudential Unit Trust Mngrs Ltd (a) (b) (c)
51-69 Ilford Hill, Ilford, Essex IG1 2DL 01-478 3377

Holborn Comm Trust	52.5	55.8	+0.1	2.96
Holborn Equity Tst.	400.6	426.1	-8.2	3.12
Holborn European Trust	78.3	83.2	+3.3	0.88
Holborn Gilt Tst.	180.0	180.2	-0.2	8.15
Holborn High Inc.	64.6	68.7	-1.2	6.30
Holborn Intl Growth	88.1	93.7	+0.9	0.74

Sun Life Trust Mgmt. Ltd
107 Cheapside, London EC2V 6DU 01-606 6010

American Growth Acc.	31.0	33.0	+1.4	1.4
American Income Acc.	30.3	32.2	-0.7	5.5
American Income Inc.	29.4	31.8	-0.7	5.5
European Growth Acc.	46.0	48.9	-0.2	0.8
Far East Growth Acc.	34.1	36.3	+0.6	0.6
Int. Growth Acc.	31.5	33.5	-0.5	2.0
Japan Growth Acc.	43.6	46.3		0.1
UK Growth Acc.	35.4	37.6	-0.9	2.7
UK Income Acc.	30.6	32.6	-0.8	5.3
UK Income Inc.	30.0	31.9	-0.8	5.3
Managed Growth Acc.	37.3	39.7	-0.1	1.9
Managed High Yield Inc.	43.1	45.9	-0.6	7.8
Managed Income Inc.	33.0	35.1	-0.7	3.6

Swiss Life Pen. Tst. Man. Co Ltd (a)(c)
99-101 London Rd, Sevenoaks 0732 450161

Equity Dist.*	262.0	277.2		3.53
Equity Acc.*	315.3	333.6		3.53
Fixed Int. Dist.†	120.0	124.3		10.88
Fixed Int. Acc.†	176.0	182.3		10.88

*Prices on Mar 12. Next dealing April 9
†Prices on Mar 5. Next dealing April 2

TSB Unit Trusts (b) (c) (y)
PO Box 3, Keens House, Andover, Hants SP10 1PG
0264 62188 Dealings to 0264 63432-3

TSB American	115.0	122.6	+2.2	0.97
Do. Accum	119.1	127.4	+2.3	0.97
TSB Extra Income	105.3	112.1	-1.8	5.23
Do. Accum	123.1	131.0	-2.1	5.23
TSB General	156.7	166.8	-3.2	2.67
Do. Accum	255.2	271.5	-5.1	2.67
TSB Gilt & Fxd Int.	51.1	53.3	-0.6	8.07
Do. Accum	65.4	68.2	-0.8	8.07
TSB Income	212.7	226.3	-4.6	4.17
Do. Accum	326.5	347.4	-7.0	4.17
TSB Pacific	128.6	136.9	+1.5	0.67
Do. Accum	131.9	140.4	+1.6	0.67
TSB International	288.7	307.2	+3.9	1.66
Do Accum.	354.4	377.1	+4.3	1.66
TSB Natural Resources	47.0	50.0	-0.4	2.19
Do. Accum	47.9	51.0	+0.4	2.19
TSB Slctd. Opps.	[illegible]	63.7	-0.9	1.57
Do. Accum	[illegible]	69.8	-0.9	1.57

3i Unit Trust Managers Ltd
2 St Mary Axe, London EC3A 8BP 01-928 3356

Small Co's Fund	69.7	74.1	+0.3	0.1

INSURANCE, OVERSEAS & MONEY FUNDS

OFFSHORE AND OVERSEAS

Money Market Trust Funds

Money Market Bank Accounts

Henderson/Bank of Scotland
38 Threadneedle St EC2P 2EH — 01-628 8060
Money Mkt. Cheque Acc. 11.00 | 8.22 | 12.20 | Mth

Legal & General (Money Mngrs) Ltd
355 Euston Road, NW1 3AG — 01-388 3211
High Int Dep Acc 12.04 | 9.00 | 13.14 | 6-mth

Lloyds Bank PLC
71 Lombard St, London EC3P 3BS — 01-626 1500
HighIntCheque Account 10.75 | 8.25 | 12.16 | Qtr

Lombard North Central PLC
17 Bruton St, W1A 3DH — 01-409 3434
14-Day Notice 11.25 | 8.409 | 12.013 | —

M & G/Kleinwort Benson
91-99 New London Rd, Chelmsford. — 0245 51651
H.I.C.A. 11.00 | 8.22 | 12.21 | Daily

Midland Bank plc
PO Box 2, Sheffield. — 0742 20999 Ext 8655
High Int Chq Acc 10.70 | 8.00 | 11.78 | Qtr
£10,000 + 11.04 | 8.25 | 12.16 | Qtr

Oppenheimer Money Mgmnt Ltd
66 Cannon St, EC4N 6AE — 01-236 1425
Money Mngt. Acc 11.625 | 8.69 | 12.83 | 3-Mth

Phillips & Drew Trust Ltd
120 Moorgate, London EC2M 6XP — 01-628 9771
High Int Chq Acc 11.625 | 8.69 | 12.80 | Qtr

Provincial Trust
30 Ashley Rd, Altrincham, Cheshire — 061-928 9011
High Int Chq Acc 12.00 | 8.97 | 13.29 | Mth

Royal Bank of Scotland plc
24 Lombard St, London EC3V 9BA — 031-557 0201
Premium Account 11 00 | 8.22 | 12.11 | Qtr

Save & Prosper/Robert Fleming
28 Western Rd, Romford RM1 3LB. — 0708 66966
H.I.B.A. 11.0 | 8.22 | 12.24 | Daily

Tyndall & Co
29-33 Princess Victoria St, Bristol — 0272 732241
Demand Acc 11.49 | 8.59 | 16.67 | Qtr
Money Acc 11.53 | 8.62 | 12.72 | Qtr

J. Henry Schroder Wagg & Co Ltd
Enterprise House, Portsmouth — 0705 827733
Special Acc 11.00 | 8.22 | 12.20 | Mth
Over £10,000 11.25 | 8.41 | 12.49 | Mth

Western Trust & Savings Limited
The Moneycentre, Plymouth PL 1SE — 0752 24141
High Int Chq Acc 11.69 | 8.74 | 12.90 | Qtr

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		p
Allied-Lyons	28	Marks & Spencer	13
BAT	26	Midland Bk.	35
BOC Grp	27	NEI	10
BSR	9	Nat West Bk	55
BTR	35	P & O Dfd	35
Babcock	13	Plessey	14
Barclays	33	Polly Peck	21
Beecham	30	Racal Elect.	15
Blue Circle	50	RHM	12
Boots	24	Rank Org Ord	35
Bowaters	30	Reed Intnl	60
Brit Aerospace	32	Sears	11
Brit. Telecom	17	TI	35
Brown (J.)	3½	Tesco	24
Burton Ord	45	Thorn EMI	34
Cadburys	13	Trust Houses	12
Charter Cons	18	Turner Newall	9½
Comm Union	23	Unilever	90
Courtaulds	13	Vickers	35
Distillers	36	Wellcome	19
FNFC	12	**Property**	
Gen Accident	55	Brit Land	14
Gen Electric	14	Land Secs	26
Glaxo	100	MEPC	26
Grand Met	30	Peachey	24
GUS 'A'	70	Samuel Props	25
Guardian	60	**Oils**	
GKN	20	Brit. Oil & Min	3½
Hanson 7½	18	Brit Petroleum	45
Hawker Sidd	36	Burmah Oil	27
ICI	42	Charterhall	4
'Imps'	16	Premier	5
Jaguar	27	Shell	55
Ladbroke	27	Tricentrol	18
Legal & Gen	60	Ultramar	18
Lex Service	24	**Mines**	
Lloyds Bank	35	Cons Gold	40
Lucas Inds	38	Lonrho	12
		Rio T Zinc	50

A selection of Options traded is given on the London Stock Exchange Report Page.

COMMODITIES AND AGRICULTURE

Malaysian tin price deadlock continues

THE KUALA LUMPUR Tin Market is not likely to resume the posting of prices for at least a month because of a new rule which requires daily turnover of at least 10 tonnes, dealers said, reports Reuter from Kuala Lumpur.

The market has not fixed a price since last Friday.

Dealers said the situation has developed into a war of nerves between sellers and buyers with miners unwilling to sell tin at prices below Thursday's close of M$15.70 a kilo (£4,080 a tonne) and buyers unwilling to pay more.

"It depends on how long miners can hold out, how much cash they have to sustain the deadlock," one dealer said. "The buyers have got nothing to lose."

On the European free market yesterday afternoon the tin price moved up about £100 a tonne to £3,700-£3,800 a tonne, in warehouse Rotterdam.

WEEKLY METALS

All prices as supplied by Metal Bulletin.

ANTIMONY: European free market, 99.6 per cent, $ per tonne, in warehouse, 2,670-2,720.

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 3.10-3.35.

CADMIUM: European free market, min. 99.95 per cent, $ per lb, in warehouse, ingots, 0.75-0.79, sticks, 0.79-0.83.

COBALT: European free market 99.5 per cent, $ per lb, in warehouse, 9.40-9.60.

MERCURY: European free market, min. 99.99 per cent, $ per flask, in warehouse, 223-235.

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.65-2.75.

SELENIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 6.25-6.40.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit WO_3, cif, 50-56.

VANADIUM: European free market, min. 98 per cent V_2O_5, other sources, $ per lb V_2O_5, cif, 2.40-2.45.

URANIUM: Nuexco exchange value, $ per lb U_3O_8, 17.00.

US Farm Act under fire at FAO rice meeting

BY RICHARD MOONEY

THE RECENTLY-signed US Farm Act has come under fire at the UN Food and Agriculture Organisation's intergovernmental rice meeting in Rome.

In a statement summarising last week's meeting the FAO said yesterday that many delegates had felt the Act "would lead to a further fall in world prices of rice, a reduction in the rice exports of other countries and a destabilisation of world markets."

The group urged the US to minimise the Act's adverse effects on rice-exporting developing countries, particularly those whose economies depended largely on rice exports.

The US delegate responded by repeating his government's claim that its export subsidy programme provided funds to compete only with "subsidising exporters" (principally the EEC) and did not provide a mechanism to undercut the prices of other exporters. He added that several provisions of the Act were discretionary and had not yet been decided upon, including the formula for determining the world price of rice.

International rice prices fell in 1985 for the fourth year in succession and, in real terms, were the lowest for at least three decades, FAO said. The volume of trade was down by 11 per cent on that in 1984, while the value of exports fell by 22 per cent. The group expressed concern that low prices would seriously harm developing exporting countries, which might not find it easy to diversify out of rice in view of technical and resource constraints.

It urged Governments that had taken action or were considering action that could further depress world market prices to withdraw or modify these measures so as to allow the world rice market to recover in the near future.

Apart from its direct appeal to the US the group made several general recommendations including:

● Governments should make special efforts to minimise recourse to export aids and to avoid price undercutting and distortions of normal trade patterns.

● Donor countries and international agencies should increase their financial and technical assistance for the implementation of appropriate rice production policies and to increase the capacity of developing countries to hold stocks.

● Further efforts should be made to increase the use of triangular transactions and multinational channelling of food aid in rice, whenever possible, drawing on surplus stocks of developing rice exporting countries.

Representatives from 60 rice producing, importing and exporting countries attended the meeting, which was under the chairmanship of Mr Joseph S. Mtenga of Tanzania.

Smelters face copper shortage

A SHORTAGE of copper concentrates is expected this year and smelters and processors are likely to have a hard time, the Inter-Governmental Council of Copper Exporting Countries (Cipec) said in its latest report, reports Reuter from Paris.

Treatment and refining charges have been forced down by the large number of mines which have closed for financial reasons and by competition for supplies by traditional smelters, while production has also been cut back in some countries, such as Japan, according to the October-December 1985 report.

This shortage of copper concentrates is expected to continue in the short run but by 1988 is likely to disappear due to an expected rise in the price of copper, new mine developments and increased smelter capacity, Cipec said.

China is expected to increase its copper concentrate imports but this will probably be offset by Polish and Soviet exports to West Germany.

Cipec said prices were depressed by a prolonged summer decline in consumption, a reduction in stocks held by consumers and by the uncertain outlook for growth in the US economy.

These factors added to the depressing impact the problems of the tin market had on copper, Cipec added.

Refined copper consumption in 1985 was virtually unchanged and there is expected to be only a marginal rise of around 2 per cent in consumption in 1986, to 7.4m tonnes.

The London Metal Exchange (LME) copper price is forecast to start to rise in the third quarter of 1986 to about 68 US cents a lb. The average 1986 price is also projected at this level.

No significant changes in mine production are seen unless there is a substantial change in price. Output could be reactivated only if the price rose above 80 cents/pound for some period of time and additional shutdowns are only likely if it falls below 58 cents for some time, Cipec said.

Mine production in the Western world is estimated to have fallen by over 20,000 tonnes in 1985.

But it is expected to rise by almost 23,000 tonnes this year with the reductions forecast in Zaire, South Africa, Australia, the US and Peru being offset by increases in Canada, Chile, Mexico and other smaller producer nations, it said.

Councils attacked over conservation

LOCAL AUTHORITIES are a fundamentally important part of nature conservation in Britain, but a "disappointingly low number" have used their discretionary powers during the past 26 years to safeguard the environment and its wildlife, says a report.

The survey-based report called Gaining Momentum, was written for the British servatinnists and World Wildlife Fund UK.

Andrew Gowers on moves to tighten up market regulations

US exchanges resist the red tape

THE LATEST trial of strength between the big, politically powerful, US commodity exchanges and the federal agency which watches over them appears to be drawing to a conclusion.

Just over a month ago, senior figures from the Chicago exchanges were publicly accusing the Commodity Futures Trading Commission, the regulatory body for the US futures industry, of imposing requirements on them which amounted to "capricious bureaucratic nonsense" and which threatened to stifle trading activity beneath a mountain of red tape.

Their wrath—expressed in apocalyptic tones during testimony before the Senate Agriculture Committee—was aroused by CFTC plans to tighten regulations in two key areas of commodity trading: record keeping in the markets and capital requirements for futures brokers.

In a rare show of unity, both the Chicago Board of Trade and the Chicago Mercantile Exchange—the two largest US futures markets—were keen to make as much of the issue as possible during current Congressional hearings on the performance of the CFCT. The Commission needs to have its mandate renewed by Congress in order to stay in business beyond this year.

But on both the key issues about which the exchanges were protesting last month, a distinct lowering of the temperature has been evident in the past couple of weeks.

On record keeping in the markets, the exchanges and the Commission are now pledged to work together in developing a better system. On capital rules the CFCT has given the exchanges until April 5—several months beyond its initial deadline—to prepare their positions, and is showing signs of greater flexibility than before.

It was the record keeping issue which provoked the loudest outcry among the exchanges. The CFCT promulgated a rule in January requiring the recording of trades to within one minute of their execution; the idea was, by constructing a better "audit trail" for a day's trading activity, to crack down on abuses such as "dual trading," in which floor brokers deal for their account before executing customer orders. This is outlawed as a form of insider trading.

The CFCT has also been generally concerned about the incompleteness of data on trading sessions — particularly so since it took officials nine months to complete an investigation of activities on the soya bean market in 1983. It proposed tightening up market surveillance techniques as long ago as the mid-1970s, but was forced to back off following vociferous complaints from the exchanges.

The exchanges, which currently record trades to the nearest half-hour, argued that implementation of the one minute rule was simply not feasible for all trades without interfering to a harmful extent with the fast and furious activity on their markets.

To some exchange veterans, like Mr Leo Melamed of the Chicago Mercantile Exchange and Mr John Gilmore, chairman of the Board of Trade, the rule appeared to call into question the very basis of their markets.

"The CFTC's audit trail demands are totally inconsistent with the life-blood of futures, its liquidity," said Mr Melamed in his Senate testimony last month. "Liquidity is the most essential element of our success and is the single most sought-after factor by our competitors."

The exchanges' answer is a new computerised system for reconstructing trading, which they say will record about 80 per cent of activity on an average day in the markets — that is, all trading except that carried out between floor traders, or "locals," and not involving a customer order. To go some way towards filling that gap, the exchanges propose forcing floor traders to list their trades in sequence on their record cards.

After all the shouting, hours of explanations by exchange officials, and a clear instruction from Congress to the two sides to resolve the row between themselves, the Commission appears now to have accepted that this system might work. In public, commissioners tend to describe it as "promising" but they have also apparently assured the exchanges that they will not interpret their rules too narrowly. Mr John Sander, chairman of the Mercantile, described discussions with the CFTC last week as "an extremely constructive dialogue."

The exchanges now have until July 1 to submit their proposals in detail, and are supposed to implement the system by October 1, though there is some feeling that this deadline may have to slip.

With that dispute on its way to being solved, the industry will be turning its attention once again to the CFTC's capital rule proposals. These stem from the default last year of Volume Investors, a small member of New York's Commodity Exchange (Comex) and call for a dramatic increase in the capital of futures commission merchants.

When the rule was published for comment some months ago outrage was once again the reaction of the exchanges. They predicted that a substantial number of their members could be driven out of business if the rule were implemented. The Board of Trade has proposed an alternative rule, which, rather than imposing an across-the-board capital increase, would base minimum capital requirements on risks associated with open positions in individual customer accounts. This appears to be receiving consideration at the Commission.

Nonetheless, even if both issues now seem less contentious than they did, the somewhat hysterical nature of the row between the markets and their regulators has left a sour after taste. The CFTC feels that the exchanges tend to react like this almost instinctively when any new regulatory proposal is put forward.

"These people (the exchanges) see themselves as the last bastion of capitalism," said one commission staff member. "They just don't want to see the hand of government in there."

For their part, the exchanges feel that the Commission under Dr Susan Phillips, its current chairman, lacks clear leadership and thus tends to act both capriciously and defensively at times.

"Our industry is hostage to an agency that is inexperienced and reacts from fear—fear of public perceptions, fear of criticisms on the part of the press, fear of opinions by other federal agencies or their staffs," said Mr Melamed.

Mr Gilmore complained that the exchanges were "threatened by a series of regulatory assaults, and by an underlying regulatory mentality that all too often seems to ignore costs, exalt record keeping over market efficiency, and subordinate vital needs of market users to bureaucratic whims."

This fundamental division of views can be partly explained by the natural tension which arises between the regulators and regulated in any market—and will probably crop up from time to time under the City of London's new regulatory framework. But there are special reasons for the degree of bad blood within the US futures industry, which also help to explain why there should be a big row over regulation in this industry at a time of general deregulation in other sectors.

For one thing the CFTC is a very young body, founded only 12 years ago; for another, the futures industry has changed beyond all recognition since the Commission's inception—from an agriculturally based industry to one which has more affinities with mainstream financial services business.

"There's a lot of pushing and shoving between the two sides. They're testing each other," observed Mr Dan Glickman, a Kansas Congressman who follows these issues closely. The securities industry went through this many years ago. There's a general perception that the (financial) futures markets are young compared to the securities markets, so people aren't comfortable deregulating them." In addition, there is still considerable mistrust towards the market among US farmers—a concern to which farm state politicians must respond.

No doubt the trial of strength will continue on other issues in coming years. For example, Mr Glickman is beginning to talk about the idea of insurance on customers' account to bring futures in line with other parts of the financial world such as banking. That is something which the exchanges dismiss as unnecessary at present, given the low level of customer losses in the industry (a total of $10m industry-wide between 1938 and 1984), according to the Board of Trade.

One day the subject of bringing all financial regulation — currently carried out by a plethora of federal and state bodies—under one umbrella may also come up, at which point, says the CFTC, the exchanges would find the rules a good deal more onerous than they are today.

Mr John Gilmore (right), chairman of the Chicago Board of Trade, complains that exchanges are "threatened by a series of regulatory assaults, and by an undermining mentality"

LONDON MARKETS

STERLING'S continued weakness against the dollar encouraged a general rise in prices on the London Metal Exchange. Copper was the main beneficiary with the cash higher grade quotation adding £10.50 to Monday's £15 rise to reach £998 a tonne at the close. Lead and zinc were both up £3.50 in the cash positions, at £251 and £422.50 a tonne respectively. And cash aluminium advanced another £8.25 to £820.50 a tonne. Coffee's recent heavy price slide was halted as the May position regained £83.50 on the day at £2,389 a tonne. But the price was still more than £160 below the level ruling a week earlier. Cocoa was also up—the May position gaining £19.50 at £1,438.50 a tonne—but the steep rise in sugar futures, which are priced in dollars, ran out of steam and early rises of up to $5 a tonne were wiped out by the end of the day. In the morning the London daily raw sugar price had been marked up another $15 to a new 20-month peak of $197 a tonne.

LME prices supplied by Amalgamated Metal Trading.

INDICES

FINANCIAL TIMES

Mar. 25	Mar. 24	M'th ago	Year ago
[illegible]	[illegible]	[illegible]	297.58

(Base: July 1 1952=100)

REUTERS

Mar. 25	Mar. 24	M'th ago	Year ago
1807.9	1791.0	1806.5	1965.0

(Base: September 18 1931 = 100)

DOW JONES

Dow Jones	Mar. 25	Mar. 24	Month ago	Year ago
Spot	131.85	131.74	—	119.05
Fut.	132.01	133.07	—	108.99

(Base: December 31 1931=100) * Not available due to suspension of tin LME.

MAIN PRICE CHANGES

In tonnes unless otherwise stated.

ALUMINIUM

COPPER

CATHODES

LEAD

NICKEL

TIN

Kuala Lumpur Tin Market: Unavailable (15.70) ringgit per kg.

ZINC

GOLD

SILVER

RUBBER

MEAT

COCOA

COFFEE

SUGAR

SOYABEAN MEAL

GRAINS

POTATOES

FREIGHT FUTURES

US MARKETS

PRECIOUS METALS were unable to hold on to early gains associated with the US/Libyan skirmishes as dollar strength eroded values and losses were increased late in the session by activated stops, reports Heinold Commodities. Copper was also affected negatively by the stronger dollar. Sugar attracted profit-taking after rallying to new contract highs. Manufacturer price fixing helped cocoa recover from early losses. Following technical inspired declines early in the session, coffee recovered on price fix buying. Cotton traded mixed with light producer selling pressuring old crop value. On continued reaction to Monday's failed Opec talks, oil prices fell sharply.

NEW YORK

CHICAGO

OIL

GAS OIL FUTURES

هكذا من الأصل

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Short covering boosts dollar

The dollar rose sharply in currency markets yesterday as a turnaround in sentiment prompted heavy short covering. Demand was also attributed to stop loss buying as earlier positions, taken on the assumption of a lower dollar, were closed out in order to minimise losses. The change in sentiment was attributed to comments made on Monday, suggesting that the US and Japanese central banks had seen the dollar fall sufficiently for the time being.

An escalation in the fighting between US and Libyan forces off the coast of Libya also increased demand for the dollar, described as a flight to a safe haven. While economic fundamentals remained bearish, highlighted by yesterday's fall in US durable goods orders, the market seemed more concerned with adjusting dollar positions and the dollar's underlying bearish tone was pushed into the background. In addition further uncertainty caused by postponement of the Opec meeting until April 15 and a consequent fall in oil prices, assisted the US unit.

It rose to DM 2.3385 against the D-mark up from DM 2.2865 on Monday and Y180.20 compared with Y178.85. Elsewhere it improved in SFr 1.9590 from SFr 1.9170 and FFr 7.1725 against FFr 7.02. On Bank of England figures the dollar's exchange rate index rose from 118.1 to 119.7.

£ IN NEW YORK

Close	Mar. 20	Prev. close
£ Spot	$1.4730-1.4750	$1.4710-1.4725
1 month	0.59-0.56pm	0.56-0.55pm
3 months	1.47-1.43pm	1.36-1.34pm
12 months	3.97-3.07pm	3.80-3.70pm

Forward premiums and discounts apply to the US dollar

STERLING — Trading range against the dollar in 1985-86 is 1.5115 to 1.0525. February average 1.4297. Exchange rate index 75.4 after a low of 75.3 and an opening level of 75.6. Monday's close was 75.9 compared with 82.6 six months ago.

Sterling lost ground against a very strong dollar but managed to record useful gains against most European currencies. Oil price fears and an end to the recent rally in UK equities and Government bonds tended to depress demand for the pound but the high level of UK interest rates provided some underlying support. It fell to $1.4615-1.4625 against the dollar, a fall of 2.7c but rose against the D-mark to DM 3.4175 from DM 3.4050 and SFr 2.8650 from SFr 2.8550. It was also higher against the French franc at FFr 10.4875 from FFr 10.4525 but fell to Y263.50 from Y266.25.

D-MARK — Trading range against the dollar in 1985-86 is 3.4510 to 2.1990. February average 2.3310. Exchange rate index 132.4 against 127.5 six months ago.

The D-mark lost ground against the dollar in late Frankfurt trading yesterday as the US unit attracted demand in the face of the current US/Libyan conflict. The move into dollars received its impetus from comments earlier in the week which suggested that the dollar had fallen sufficiently for the time being. This prompted a good deal of short covering or stop loss buying. The dollar closed at DM 2.3320 up from DM 2.2890. Earlier in the day it had been fixed at DM 2.3132 from DM 2.2887 with intervention by the Bundesbank.

JAPANESE YEN — Trading range against the dollar in 1985-86 is 263.15 to 175.00. February average 184.545. Exchange rate index 193.6 against 160.9 six months ago.

The yen was unchanged against the dollar in Tokyo yesterday in direct contrast to its sharp fall in New York. The dollar had been boosted by claims that the Japanese and US central banks had seen the dollar fall enough. Short covering helped the dollar improve while news of US naval activity off the coast of Libya had a brief effect. The dollar closed at Y179.60, unchanged from its close in New York but up from Y177.30 in Tokyo on Monday. Despite the dollar's recent improvement, the undertone remained bearish. Early trading saw the dollar trading above Y180 but this level soon attracted sellers.

POUND SPOT—FORWARD AGAINST POUND

March 25	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4540-1.4755	1.4615-1.4625	0.59-0.56c pm	4.72	1.01-1.46 pm	4.08
Canada	2.0454-1.0597	2.0475-2.0505	0.19-0.08c pm	9.79	9.53-0.38 pm	0.89
Nethlnd	3.82½-3.87	3.85½-3.86½	2¼-2c pm	0.61	6⅝-6½ pm	0.83
Belgium	69.24-70.03	69.90-70.00	3c pm-7 dis	−0.34	17-4 pm	0.60
Denmark	12.52-12.63¾	12.62¾-12.63¾	4-2⅞ore pm	3.27	11½-8⅞ pm	3.32
Ireland	1.1208-1.1290	1.1249-1.1259	0.32-0.47p dis	−4.21	0.80-0.90dis	−2.67
W Ger	3.38-3.42½	3.41¾-3.42¾	2¼-2pf pm	7.46	5⅞-5⅜ pm	0.73
Portugal	217½-222	220½-221½	165-470c dis	−17.24	810-1320d	−10.66

CURRENCY MOVEMENTS

Mar. 25	Bank of England Index	Morgan Guaranty Change %
Sterling	70.4	−10.0
U.S. dollar	119.7	+10.9
Canadian dollar	78.0	−12.0
Austrian schilling	105.0	+0.6
Belgian franc	93.6	−6.0
Danish Kroner	84.0	−2.0

DOLLAR SPOT—FORWARD AGAINST DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

Long-term Eurodollars: two years 7⅝-7⅞ per cent; three years 7¾-8 per cent; four years 8-8¼ per cent; five years 8¼-8⅜ per cent nominal. Short-term rates are call for US dollars and Japanese yen; others two days' notice.

CURRENCY RATES

OTHER CURRENCIES

STERLING INDEX

EMS EUROPEAN CURRENCY UNIT RATES

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

FINANCIAL FUTURES

Bonds below best

Dollar denominated contracts were steady to firm on the London International Financial Futures Exchange yesterday, but finished below the best levels, as a result of nervousness about US economic data and the fighting in the Mediterranean between the US and Libya. A sharp rise of 2.5 per cent in February durable goods orders, after the exclusion of defence orders, pushed June US Treasury bonds down from a high of 97-24, to close at 97-12, compared with 97-09 previously. The contract opened little changed at 97-10, following Japanese buying, after US dealers had sold on the news of fighting in the Mediterranean. After a quiet morning reports of renewed skirmishing between the US and Libya, led to further selling, followed by buying on the fall of 0.4 per cent in February US consumer prices, compared with a rise of 0.8 per cent in January.

The fall was the first since 1982, and the largest since July 1949. Falling energy and food prices reduced US inflation to 3.2 per cent from 3.9 per cent. Buying demand appeared to be reinforced by the fall of 0.5 per cent in February durable goods orders, but this figure included a fall of 30 per cent in defence orders, and without defence spending the figure showed a sharp rise.

Sterling interest rate contracts lost ground as the pound weakened against the dollar, and hopes faded of another early cut in clearing bank base rates, after the breakdown of the Opec talks on Monday.

LIFFE LONG GILT FUTURES OPTIONS

Strike price	Calls—Last June	Sept	Dec	Mar	Puts—Last June	Sept	Dec	Mar
116	7.27	9.13	—	—	0.49	2.13	—	—
110	0.57	7.55	—	—	1.16	2.65	—	—
120	4.35	0.42	—	—	1.57	3.42	—	—
122	3.26	3.38	—	—	2.48	4.30	—	—
124	2.29	4.39	—	—	3.51	5.39	—	—
126	1.46	3.49	—	—	0.04	0.49	—	—

Estimated volume total, Calls 1,104, Puts 328
Previous day's open int. Calls 0,961, Puts 1,264

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike price	Calls—Last June	Sept	Dec	Mar	Puts—Last June	Sept	Dec	Mar
92	5.50	5.28	—	—	0.28	1.48	—	—
94	4.13	5.10	—	—	0.53	2.30	—	—
96	2.56	4.03	—	—	1.32	3.23	—	—
98	1.54	3.07	—	—	2.30	4.27	—	—
100	1.06	2.22	—	—	3.46	5.42	—	—
102	0.39	—	—	—	5.15	—	—	—

Estimated volume total, Calls 65, Puts 42
Previous day's open int. Calls 380, Puts 326

LIFFE £/$ OPTIONS

£25,000 (cents per £1)

LONDON SE £/$ OPTIONS

£12,500 (cents per £1)

PHILADELPHIA SE £/$ OPTIONS

£12,500 (cents per £1)

LIFFE—EURODOLLAR OPTIONS

CHICAGO

LONDON

CURRENCY FUTURES

MONEY MARKETS

Base rate hopes fade on Opec and pound

Interest rates were slightly firmer on the London money market yesterday, as dealers appeared to rule out any further reduction in clearing bank base rates in the immediate future. Three-month interbank rose to 11 7/16-11 5/16 per cent from 11¼-11⅛ per cent. The market took a pessemistic view of the lack of agreement on production cut backs by ministres from the Orgainsation of Petroleum Exproting Countries, and the fall of sterling against the dollar, as a result of the skirmish in the Mediteranean between the US and Libya. Dealers are now awaiting the next U Kmoney suply figures early next month, and the resumption of the Opec meeting on April 15, before deciding bow soon UK interest rates will fall.

The Bank of England initially forecast a money market shortage of £300m, but changed this to £350m at noon, and to £400m in the afternoon. Total help on the day was £371m.

Before lunch the authorities bought £269m bills outright, by way of £190m bank bills in band 2 at 11 5/16 per cent; £63m bank bills in band 3 at 11¼ per cent; and £16m bank bills in band 4 at 11 3/16 per cent.

In the afternoon another £87m bills were purchased outright, through £71m bank bills in band 2 at 11 5/16 per cent; and £16m bank bills in band 3 at 11¼ per cent Late assistance of £15m was also provided.

Bills maturing in official hands, repayment of late assistnace and a take-up of Treasury bills drained £180m, with the unwinding of repurchase agreements absorbing £346m, and a rise in the note circulation £30m. These outweighed Exchequer transactions adding £225m to liquidity, and bank balances above target by £40m.

In Frankfurt call money was steady at 5.50 per cent in tight conditions. The German Bundesbank was reported to have added liquidity through suplies of call money at 5.45 per cent from state owned banks. Tax payments for customers continued to drain money from the banking system, while the comercial banks have been forced to build up minimum rserve requirements at the Bundesbank earlier than normal, because of the long Easter holiday at the end of the month. Demand for cash is also strong ahead of the holiday.

UK clearing banks base lending rate 11½ per cent since March 19

NEW YORK RATES

(Lunchtime)

Prime rate	9
Broker loan rate	8¼-8½
Fed funds	7⅞
Fed funds at int.	—

Treasury Bills & Bonds

One month	6.25
Two month	6.40
Three month	6.56
Six month	6.75
One year	6.89
Two year	7.11
Three year	7.22
Four year	7.39
Five year	7.43
Seven year	7.61
10 year	7.79
30 year	7.90

FT LONDON INTERBANK FIXING

(11.00 a.m. March 25) Three months US dollars		Six months US dollars	
bid 7 7/16	offer 7 9/16	bid 7 3/8	offer 7 1/2

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

Mar. 25	Over night	7 days notice	Month	Three Months	Six Months	One Year
Interbank	11-10½	12-12¼	11⅞-11¾	11⅝-11½	10¾-10⅞	10⅝-15½
Sterling CDs	—	—	11¾-11⅝	11½-11⅜	10⅞-10¾	10⅝-10½
Local Authority Depos	11⅞-12	11¾-11⅞	11⅛	11⅛	10¾	15⅝
Local Author'y Bonds	—	—	12¼	11¾	11⅛	10⅛
Discount Mkt Depos	10½-18½	11¾-12	11⅛	10⅞	—	—
Company Depos	11¾-12¼	12-12¼	12	11⅝	—	—
Finance House Depos	—	—	11⅞	11½	10⅞	10½
Treasury Bills (Buy)	—	—	11⅝	11	—	—
Bank Bills (Buy)	—	—	11⅝	11⅛	10⅞-10¼	—
Fine Trade Bills (Buy)	—	—	12	11¼	10⅞	—
Dollar CDs	—	—	7.55-7.40	7.25-7.30	7.25-7.30	7.3-7.35
SDR Linked Depos	—	—	8⅛-8¼	7⅞-7½	7¼-7⅛	7⅛-7⅞
ECU Depos	—	—	10⅛-10¼	9⅛-9⅞	8½-8⅝	8⅝-8⅞

Treasury Bills (sell): one-month 11¾ per cent; three-months 10 11/16 per cent. Bank Bills (sell): one-month 11 11/32 per cent; three-months 11 per cent. Treasury Bills: Average tender rate of discount 10.7831 per cent. ECGD Fixed Finance Scheme IV reference date February 5 to March 4 (inclusive): 12.654 per cent. Local authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 12 per cent from March 1 1986. Bank Deposit Rate for sums at seven days' notice 5½-6 per cent. Certificates of Tax Deposits (Series 8): Deposits £100,000 and over held under one month 11¼ per cent; one-three months 11¼ per cent; three-six months 11 per cent; six-nine months 10½ per cent; nine-12 months 10¼ per cent. Under £100,000 10¼ per cent from March 25. Deposits held under Series 0 10¼ per cent. Deposits withdrawn for cash 7 per cent.

MONEY RATES

March 25	Ov'r-nig't	One Month	Two Months	Three Months	Six Months	Lombard In'v'tin
Frankfurt	5.4-5.5	4.55-4.80	4.55-4.70	4.00-4.70	4.55-4.70	0.0
Paris	8⅛	8¼-8⅝	8¼-8⅜	8¼-8⅝	8-8⅛	11¼
Zurich	14⅛-15⅛	4⅞-4¾	—	4⅞-4⅞	—	—
Amsterdam	0⅛-5⅞	5⅛-5⅝	—	5⅝-5½	0⅛-5¼	—
Tokyo	0.09370	0.00625	—	3.34375	—	—
Milan	15⅝-18¾	15¾-18½	—	15⅝-10¾	—	—
Brussels	8.50	9¾-9⅞	—	9⅝-9⅞	—	—
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Contracts and Tenders

ANNOUNCEMENT FROM

EREGLI IRON AND STEEL WORKS CO.

ERDEMIR, TURKEY

1. Approximately 400,000 metric tonnes of low volatile and 400,000 metric tonnes of medium volatile coking coal to be imported to meet our works requirement for the period of May 1986 - April 1987.
2. Tender documents for this enquiry may be obtained as of 31st March 1986 from our following offices:
   (a) Eregli Demir ve Celik Fabrikalari T.A.S.
   Dis Alimlar Mudurlugu (Foreign Purchasing)
   Uunkum Cad
   Kdz. Eregli, Turkey
   (b) Eregli Demir ve Celik Fabrikalari T.A.S.
   Satinalma Mudurlugu
   Gumussuyu Cad. Dersan Han Kat:4
   Istanbul, Turkey
   (c) Eregli Demir ve Celik Fabrikalari T.A.S.
   Dis Alim Siparis Tokip Sefligi
   Ataturk Bulvari Selcan Han No: 127 Kat:5
   Ankara, Turkey
   Tender documents may also be obtained as of 31st March 1986 from Republic of Turkey, Ministry of Foreign Affairs, Turkish Embassy Department of Commercial Attaché both in Washington D.S., U.S.A., and London, UK.
3. Producers and/or the authorised sales agents on the behalf of producers may participate in this enquiry provided that in conformity with our technical specifications at least one million tonnes of coking coal is annually produced and half of this amount is exported by the producer. In any case the contract will be executed with the producer company.
4. The offers in sealed envelopes should be submitted to Eregli Demir ve Celik Fabrikalari T.A.S., Dis Alimlar Mudurlugu, Uzunkum Cad., Kdz. Eregli, Turkey, at the latest by 17.00 hours Turkish local time on 21st April 1968.
5. Our company reserves the right to place the order either partially or completely with any bidder or to cancel the Tender completely. The receipt of quotations shall in no way be binding upon our company.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1986 High	1986 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
98[illegible]	95[illegible]	Treas 3pc 1986	98[illegible]	+[illegible]	3.04	11.23
99[illegible]	99[illegible]	Exch. 10½pc 1986	99[illegible]	...	10.52	11.47
100[illegible]	99[illegible]	Treas 12pc 1986	100[illegible]	..	11.99	11.49
99[illegible]	98[illegible]	Treas 8½pc 1984-86‡‡	99[illegible]	–[illegible]	8.57	11.31
102[illegible]	100[illegible]	Exch. 14pc 1986	102[illegible] xd	–[illegible]	13.73	10.64
96[illegible]	94[illegible]	Exch. 2½pc 1986	96[illegible]	–[illegible]	2.60	8.55
102[illegible]	100[illegible]	Exch. 13½pc 1987	102[illegible]	–[illegible]	12.97	10.34
100[illegible]	97[illegible]	Treas 10¼pcCv '87	99[illegible]	–[illegible]	10.26	10.35
95[illegible]	92[illegible]	Exch 2½pc 1987	94[illegible]	–[illegible]	2.63	8.40
100½	97½	Exch. 10½pc 1987	100[illegible] xd	–[illegible]	10.47	10.26
96[illegible]	93[illegible]	Funding 6½pc '85-87‡‡	96[illegible] xd	–[illegible]	6.71	9.60
100	96[illegible]	Treas. 10pc 1987	99[illegible]	–[illegible]	10.03	10.24
93[illegible]	90[illegible]	Treas 3pc 1987	93[illegible]	...	3.20	8.47
102[illegible]	99[illegible]	Treas. 12pc 1987	102½	–[illegible]	11.72	10.24
97[illegible]	92[illegible]	Treas 7¾pc 1985-88‡‡	96[illegible]	–[illegible]	8.02	4.77
101[illegible]	96[illegible]	Exch 10½pc '88	100[illegible]	–[illegible]	10.43	10.17
99[illegible]	95[illegible]	Treas 9¾pc Cv '88	99[illegible]	–[illegible]	9.81	10.05
90[illegible]	86[illegible]	Transport 3pc '78-88	89[illegible]	–[illegible]	3.35	8.09
99[illegible]	93[illegible]	Treas. 9½pc '88	98[illegible] xd	–[illegible]	9.62	10.07
104½	98[illegible]	Treas 11½pc 1989	103[illegible]	–[illegible]	11.08	9.94
100[illegible]	93[illegible]	Treas 9½pc Cnv. '89	100[illegible] xd	–[illegible]	9.44	9.25
86[illegible]	82[illegible]	Treas 5pc 1989	86[illegible]	–[illegible]	3.47	7.99
101[illegible]	95[illegible]	Treas 10½pc 1989	101[illegible]	–[illegible]	10.36	9.99
100[illegible]	94[illegible]	Exch 10pc 1989	100	–[illegible]	10.00	9.99
103[illegible]	97	Exch 11pc 1989	103 xd	–[illegible]	10.68	9.94
89[illegible]	84½	Treas 5pc 1986-89	88[illegible] xd	–[illegible]	5.63	8.62
107[illegible]	94[illegible]	Exch 10¼pcCv '89	105[illegible]	–1[illegible]	9.69	8.38
110[illegible]	105[illegible]	Treas 13pc 1990‡‡	110[illegible]	–[illegible]	11.81	9.75
104[illegible]	97[illegible]	Exch 11pc 1990‡‡	104	–[illegible]	10.58	9.74
109[illegible]	101[illegible]	Exch. 12½pc 1990	108[illegible]	–[illegible]	11.47	9.74
85	79[illegible]	Treas. 3pc 1990	82¼	–[illegible]	3.65	8.16
96½	89[illegible]	Treas 8¼pc 1987-90‡‡	95[illegible]	–½	8.60	9.48
102[illegible]	93	Treas. 10pcCv 1990	101[illegible] xd	–[illegible]	9.82	9.50
80[illegible]	76[illegible]	Exch 2½pc 1990	79[illegible]	–[illegible]	3.14	7.79
108[illegible]	99[illegible]	Treas 11¾pc 1991	108[illegible]	–[illegible]	10.87	9.60

Five to Fifteen Years

1986 High	1986 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
91¼	85[illegible]	Funding 5¾pc '87-91‡‡	90[illegible] xd	–1[illegible]	6.34	8.05
107[illegible]	96[illegible]	Exch. 11pc 1991	106 xd	–1¼	10.38	9.59
[illegible]	103[illegible]	Treas 12¾pc 1992‡‡	114	–1½	11.18	9.55
[illegible]	92[illegible]	Treas 10pc 1992	103	–1[illegible]	9.71	9.32
[illegible]	94[illegible]	Treas 10½pc Cv 1992‡‡	104[illegible]	–1[illegible]	10.01	9.43
[illegible]	101[illegible]	Exch. 12¼pc '92	112½	–1¼	10.89	9.59
[illegible]	106[illegible]	Exch 13½pc 1992	118¼	–1[illegible]	11.42	9.64
[illegible]	19[illegible]	Treas 10pc 1993 (£20pd)	28¼	–1[illegible]	9.73	9.25
[illegible]	103½	Treas 12½pc 1993‡‡	115[illegible]	–1½	10.84	9.55
89	78[illegible]	Funding 6pc 1993‡‡	87[illegible]	–1[illegible]	6.83	8.19
[illegible]	109[illegible]	Treas 13¾pc 1993‡‡	122[illegible]	–1[illegible]	11.26	9.59
[illegible]	114[illegible]	Treas 14½pc 1994‡‡	127[illegible]	–1[illegible]	11.38	9.50
[illegible]	108½	Exch 13½pc 1994	121¼ xd	–1[illegible]	11.13	9.67
118	103[illegible]	Exch. 12½pc 1994	116[illegible]	–1[illegible]	10.72	9.57
[illegible]	86[illegible]	Treas 9pc 1994‡‡	98[illegible]	–1½	9.15	9.27
115½	101½	Treas 12pc 1995	114[illegible]	–1[illegible]	10.51	9.58
76[illegible]	68[illegible]	Gas 3pc '90-95	75[illegible] xd	–½	3.96	6.62
106[illegible]	92¼	Exch. 10¼pc 1995	104[illegible]	–1[illegible]	9.78	9.46
121[illegible]	106¼	Treas 12¾pc 1995‡‡	120	–1¼	10.62	9.52
129	115	Treas. 14pc '96	127½	–1½	10.98	9.59
100	86[illegible]	Treas 9pc 1992-96‡‡	98½	–1½	9.14	9.23
137½	120[illegible]	Treas 15¼pc 1996‡‡	136	–1½	11.21	9.60
125[illegible]	130	Exch 13¼pc 1996‡‡	124¼	–1½	10.66	9.47
81[illegible]	74[illegible]	Redemption 3pc 1986-96	81½ xd	–¼	3.68	5.32
126[illegible]	110[illegible]	Treas 13¼pc 1997‡‡	125	–1[illegible]	10.60	9.50
108[illegible]	94[illegible]	Exch 10½pc 1997	107	–1¼	9.81	9.45
97[illegible]	84[illegible]	Treas 8¾pc 1997‡‡	96[illegible]	–1¼	9.05	9.22
138	120[illegible]	Exch. 15pc 1997	136[illegible] xd	–1[illegible]	10.98	9.68
[illegible]	89[illegible]	Exch. 9¾pc 1998	102[illegible]	–1[illegible]	9.52	9.40
85	72[illegible]	Treas 6¾pc 1995-98‡‡	83½ xd	–1½	8.08	9.02
[illegible]	125[illegible]	Treas. 15½pc '98‡‡	142 xd	–1[illegible]	10.91	9.64
[illegible]	101[illegible]	Exch 12pc 1998	118[illegible]	–1[illegible]	10.16	9.50
[illegible]	89[illegible]	Treas 9½pc 1999‡‡	101¼	–1[illegible]	9.34	9.25
[illegible]	105[illegible]	Exch. 12¼pc 1999	120[illegible] xd	–1¼	10.20	9.52
[illegible]	94[illegible]	Treas. 10½pc 1999	108[illegible]	–1[illegible]	9.69	9.37
[illegible]	93[illegible]	Conversion 10¼pc 1999	106½	–1[illegible]	9.62	9.38
[illegible]	25	Cnv 9pc 2000 'A' (£25pd)	27¼	–1[illegible]	9.14	9.19
[illegible]	111[illegible]	Treas. 13pc 2000	127	–1½	10.24	9.50
[illegible]	92[illegible]	Treas 10pc 2001	105[illegible]	–1½	9.44	9.26

Over Fifteen Years

1986 High	1986 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
[illegible]	115[illegible]	Treas. 14pc '98-01	131	–1[illegible]	10.69	9.61
[illegible]	90[illegible]	Conversion 9¾pc 2001	104[illegible]	–1[illegible]	9.36	9.24
[illegible]	104	Exch. 12pc '99-02	118[illegible]	–1½	10.11	9.46
[illegible]	92[illegible]	Conversion 10pc 2002	106¼ xd	–1[illegible]	9.41	9.24
[illegible]	90[illegible]	Treas 9¾pc 2002	104[illegible]	–1[illegible]	9.36	9.25
[illegible]	116[illegible]	Treas. 13¾pc 2000-03	133	–1[illegible]	10.34	9.49
50	34[illegible]	Treas 10pc '03 (£35pd)	48[illegible]	–1[illegible]	9.37	9.21
[illegible]	102[illegible]	Treas. 11½pc 2001-04	117½	–1[illegible]	9.79	9.31
[illegible]	92[illegible]	Treas. 10pc 2004	106[illegible]	–1½	9.37	9.22
[illegible]	49[illegible]	Funding 3½pc '99-04	57¼	–1¼	6.11	7.91
[illegible]	88[illegible]	Conversion 9½pc 2004	102[illegible] xd	–1[illegible]	9.26	9.21
104[illegible]	89	Conversion 9½pc 2005	103¼ xd	–1½	9.20	9.13
[illegible]	20	Cnv. 9½pc '05 A (£20pd)	27¼	–1[illegible]	9.16	9.07
[illegible]	97[illegible]	Exch 10½pc 2005	111¼ xd	–1½	9.39	9.18
[illegible]	131	Treas. 12½pc 2003-05	127½	–1¼	9.80	9.30
[illegible]	78[illegible]	Treas. 8pc 2002-06‡‡	91¼ xd	–1[illegible]	8.78	8.95
122[illegible]	105[illegible]	Treas. 13¾pc 2003-07	122	–1¼	9.71	9.26
138	118[illegible]	Treas. 13½pc '04-08	136¼ xd	–1[illegible]	9.90	9.30

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

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FOREIGN BONDS & RAILS

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AMERICANS—Cont.

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont.

CHEMICALS, PLASTICS

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ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

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INDUSTRIALS—Continued

LEISURE—Continued

PROPERTY—Continued

INVESTMENT TRUSTS—Cont.

FINANCE, LAND—Cont.

MINES—Continued

1986 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's
80	10	♥Colby Res Corp	50	..	—	—	—
300	200	Cons. Murch. 10c	200	..	tQ60½c	3.9	‡
34	28	♥Emmes Int. 1s10p	32	−2	—	—	—
101	70	Greenwich Res	95	..	—	—	—
143	113	Hampton Areas 10p	119	−1	3.75	0.9	4.2
245	165	♥Highwood Res	240	+5	—	—	—
1390	£15⅞	Homestake Mining $1	£17¼	+⅛	Q20c	—	0.8
310	185	♥McFinley Red Lake	260		—	—	—
285	210	♥Musto Explorations	245	.	—	—	—
45	40	♥New Sabina Res C$1	45	..	—	—	—
260	210	Northgate C$1	240	+5	—	—	—
765	513	RTZ	729	−16	t20.0	2.8	3.9
£164	1115	Do 9½pcLn 95-2000	£152	−7	Q9½%	14.0	16.3
950	800	♥Tara Expn $1	912	.	—	—	—

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

Finance, Land, etc

INSURANCES

LEISURE

PROPERTY

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ● Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♥ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3)
- ‡ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ‡ Not comparable
- ● Same interim; reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided
- ¶ No par value

B Fr. Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualized dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1984-85. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1901. R Gross. N Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency

Stock	Price	+ or −	Stock	Price	+ or −
Albany Inv 20p	105		Fin. 13% 97/02	£128¼	+¼
Craig & Rose £1	£131½	.	Arnotts	348	+13
Finlay Pkg 5p	47	.	CPI Hldgs	60	..
Holt (Jos) 25p	770		Carroll Inds	178	+4
IoM Stm. £1	77	+2	Dublin Gas	60	...
			Hall (R. & H.)	67	−5
IRISH			Heiton Hldgs	29	....
Fund 11¼% 1988	£100		Irish Ropes	60	.
Nat. 9¼% 84/89	£98⅞	+½	Unidare	160xd	....

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(International Edition Page 36)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £675 per annum for each security.

LONDON STOCK EXCHANGE

MARKET REPORT

Account Dealing Dates

Option *First Dealings	Declara-tions	Last Dealings	Account Day
Mar 10	Mar 26	Mar 27	Apr 7
Apr 1	Apr 10	Apr 11	Apr 21
Apr 14	Apr 24	Apr 25	May 6

* "New-time" dealings may take place from 2.30 am two business days earlier.

Shares and bonds fall sharply in oil sensitive markets

Share prices dropped sharply for the second successive session and Government bonds also encountered downward pressures. The confidence which has featured both investment sectors for many weeks waned as falling oil prices induced fresh weakness in the exchange rate which, in turn, removed any hope for a while of lower interest rates.

Wall Street's good recovery overnight made no impression. Before the official opening of dealings, equity jobbers were preparing for attacks of profit-taking as a long money-spinning Account neared Thursday's close.

Their preparations were not misconceived. Larger and smaller investors alike heeded analysts' advice that, with the market seemingly running out of steam, the time was ripe to realise profits.

Several big lines of leading stocks came on offer and were absorbed on the way down. The two main indices slumped throughout the morning with sentiment deteriorating further on latest reports of the Middle East hostilities between the US and Libya. Around mid-afternoon prices tried to recover but the movement was choked off by Wall Street: the US market continued its recent erratic behaviour and moved lower again in the early business.

The upshot was that the FT Ordinary share index turned back to record its largest-ever loss, in points terms, to close 29.9 down at 1364.7. Its sister index, the FT-SE 100 share, sustained the heaviest fall since compilation in 1984, ending 30.1 lower at 1633.8. It was the wrong day to announce corporate results and most trading statements, good or bad, were greeted with price falls.

Government securities were also hit by domestic and foreign selling as sterling backtracked from last week's higher levels. Prospective buyers stayed firmly on the sidelines and the price slide continued throughout official dealings into the after-hours' trade. Longer bonds then featured losses extending to 2¼ points before ultimately edging away from the day's lowest. The ultra-long Exchequer 12 per cent 2013-17 ended 2¼ down at 129¼, while shorter maturities settled with losses stretching to ¾. Index-linked stocks failed to escape and were a maximum of ⅜ easier.

Smith St. Aubyn up

Discount House Smith St Aubyn provided some colour in an otherwise dull banking sector, rising 7 to 51p in response to the agreed share-exchange counter bid from King and Shaxson, 6 lower at 190p. The major clearers, however, succumbed to profit-taking for the third consecutive session. Barclays dropped 18 further to 538p and NatWest declined 15 to 885p, as did Midland, to 508p. Lloyds ended 14 cheaper at 632p. Standard Chartered's annual figures were above most market expectations and the shares rallied from an initial dull level of 535p to 547p, before closing only a net 2 easier at 543p.

Interest in Life Insurances centred upon Equity and Law and Prudential, both of which reported annual results: the former cheapened 5 to 245p on the figures, but the latter advanced 7 to 892p, after 904p, following news of the 38 per cent profits increase.

Leading Building issues suffered a defensive mark-down in the face of scrappy selling, but once again quotations steadied late in the session and closed above the worst in places. Blue Circle dipped to 655p at one stage before settling 23 lower on balance at 663p. BPB Industries finished 15 down at 457p, after 450p. Tarmac came back 8 to 474p and Rugby Portland Cement slipped a couple of pence to 177p. Profit-taking clipped 6 from George Wimpey at 176p, but Barratt Developments, a dull market since the interim results, rallied a couple of pence to 134p on news that the Kuwait Investment Office had increased its stake to 11.8 per cent. Bryant Holdings shed 6 to 116p following the interim statement while John Maunders fell 14p to 166p after disappointing half-year figures. Arncliffe softened a couple of pence to 52p despite news of reduced losses, but EBC were marked 20 higher to 175p in reply to the good annual results and proposed scrip issue. Timber issues came back sharply with Meyer International 11 down at 245p and Magnet and Southerns 8 off at 156p.

ICI drifted lower on lack of support to close 14 down at 951p, a two-day loss of 40. Laporte lost 8 at 395p, as did Wardle Storey, at 275p, while Allied Colloids gave up 7 at 178p. The good annual results failed to sustain William Canning which shed 5 to 123p, while news of losses in the US depressed Wolstenholme Rink which dipped to 185p prior to closing 15 down at 190p.

Combined English flat

Widespread profit-taking was again the order of the day among leading Retailers, and as on Monday, double-figure losses were commonplace. Falls of 17 were noted for Gussies A, 937p, and Combined English, 217p, the latter despite announcing full-year profits in excess of general estimates. Burton dipped 10 for a two-day decline of 36 to 312p; the interim results are scheduled for April 3. Woolworth, due to reveal annual results today, slipped 13 more to 622p. Mail-orders continued to give ground with Freemans 10 cheaper at 404p on further consideration of the annual results, and Grattan 12 off at 412p. The proposed rights issue that accompanied the annual figures left Aquascutum 40 down at 260p with the more widely-traded A shares 8 lower at 85p.

Against the dull trend in secondary Electricals, A and G Securities advanced 6 to 48p, after 53p, following news of the bid from Balmaa, a penny off at 241p. AB Electronics dropped 25 to 285p in reaction to the 12 per cent interim profits contraction, while Comcap gave up 12 to 295p, also after disappointing results. HB Electronic lost 7 at 48p following details of the final dividend omission and sharply reduced profits and Magnetic for a two-day relapse of 50 to 65p on further consideration of the poor preliminary statement. Amstrad met with renewed profit-taking and closed 10 down at 400p, after 398p, while falls of 15 and 20 respectively were seen in Continental Microwave, 255p, and Microgen, 360p. Thorn EMI led the leaders lower with a loss of 8 at 464p, after 452p. Awaiting today's annual results, BICC cheapened 8 at 330p.

The Engineering sector sustained some fairly heavy losses as profit-taking continued. Hawker led the leaders lower with a fall of 18 at 587p, while GKN gave up 8 at 364p and Vickers 7 at 468p. Delta, still reflecting recent disappointing results, gave up 5 more at 222p, while falls of 13 and 16 respectively were seen in Jones and Shipman, 106p, and Simon, 232p. Light selling in the wake of the results left Hall 18 lower at 180p. Babcock relinquished 8 to 213p ahead of today's annual figures. Johnson and Firth Brown, recently the subject of press comment highlighting the group's recovery potential, moved up 2½ to a new peak of 41p.

Apart from Cadbury Schweppes, which shed 8 to 175p in the wake of the management buy-out of the food and beverage division, losses among leading Foods were generally modest. Scrappy selling left J. Sainsbury 6 cheaper at 394p and Tesco 5 off at 342p. Dee Corporation lost 8 at 285p and ASDA-MFI 4 at 146p.

BAe disappoints

Sizeable falls littered the miscellaneous industrial sector as profit-taking continued. British Aerospace plummeted 41 to close at the day's lowest of 565p on news of the 25 per cent annual profits increase to £150.3m which failed to match the most recent optimistic forecasts of around the £160-£165m level; Pilkington Bros fell 18 to 425p, Metal Box dropped 17 to 670p and falls of around 11 or so were seen in BTR, 471p, Beecham, 381p, and BOC, 352p. The preliminary profits setback demoralised Rockware which closed 12 lower at 38p, while Booker McConnell ended 5 off at 343p despite reporting preliminary earnings in line with expectations. Dealings resumed in WSL (formerly Wolverhampton Steam Laundry) following its acquisition of Schools Abroad and the divestment of some former laundry investments opening at 128p compared with the suspension price of 85p, the shares touched 145p before closing at 128p, while the new nil-paid shares opened and closed at 55p premium, after 75p premium.

The uninspiring full-year figures from British Aerospace unsettled Motor Components. Lucas, scheduled to announce interim results today, closed 15 lower at 613p, while Dowty, 218p, and AE, 170p, eased 6 apiece. A couple of bright spots emerged, however, in Supra, which hardened a few pence to 63p awaiting today's annual results, and Jonas Woodhead which touched 59p before settling a net 11 higher at 50p following a bid approach. Distributors were mixed. Tozer Kemsley and Millbourn, currently bidding for Kenning, advanced 4 more to 129p, but profit taking left T. Cowie 8 cheaper at 168p. British Car Auction fell 7 to 135p after the first-half statement.

Advertising agencies, supported of late in the wake of a broker's encouraging circular, encountered occasional offerings with Lowe Howard-Spink 17 lower to 388p awaiting today's preliminary statement. Charlwynd Streets eased a few pence to 148p while proposed merger partners Addison Page closed 29 down at 260p. London and Continental dipped 12 to 161p; the full-year figures are expected early next month. Dealings in BPCC were suspended at 280p at the outset ahead of the proposed acquisition of Pergamon's scientific journal publishing business. Elsewhere in Paper/Printings, Eucalyptus slumped 42 to 438p in reaction to the extremely disappointing results.

Leading Properties sustained moderate losses. Land Securities shed 8 to 307p, while MEPC reacted to 325p prior to closing 10 lower at 333p. Hammerson A settled 15 down at 450p; the price shown in yesterday's issue was incorrect. Rosehaugh, a firm market of late on Broadgate development prospects, came back 30 to 555p, while Country and New Town shed 8 to 128p following profit-taking.

P & O Deferred revealed annual profits at the lower end of market expectations and dipped to 530p before settling 12 cheaper on balance at 536p. Ocean Transport, long regarded as a possible bid target for P & O and due to reveal annual results next Wednesday, eased 5 to 200p.

In dull Textiles, John Crowther eased 6 to 137p following the annual results. Stoddard A, however, responded to fresh speculative support to close 2½ up at 16½p.

Imperial Group touched 355p initially following news that the offer from United Biscuits and the sale of Golden Wonder to Dalgety would not be referred to the Monopolies Commission. Hopes of a revised bid from United Biscuits were later dashed, however, when the latter stated that its offer was final and would not be increased. Imps closed 5 cheaper on balance at 342p, while UB, down to 228p earlier, rallied to 240p before settling a net penny to the good at 237p.

There was no respite for an oil sector still suffering from the effects of OPEC's failure to agree on a production cutting formula and the adjournment of the Geneva meetings to April 15. The leaders opened sharply lower and, apart from a short-lived rally around midday, continued to lose ground throughout the session. BP retreated 13 more to 540p and Shell lost 10 to 755p, while Britoil fell 5 to a 1986 low of 163p. LASMO, initially quoted at 118p, rose to 128p immediately following the preliminary results, which were a shade better than expected, but later succumbed to the general market trend and dropped to a year's low of 115p before picking up late to close a net 7 off at 123p. Secondary oils took another mauling and the majority fell away to 1986 lows. Sovereign Oil & Gas dropped 13 to 47p following comment on the annual results, while Petranol gave up 7 to 53p for the same reason.

South African sectors of mining markets made a half-hearted attempt to go better at the outset following news of the US/Libya clashes in the Mediterranean. Golds were marked higher early on, reflecting the initial rise in the bullion to around $358, but subsequent lack of interest saw both bullion and the sharemarket turn easier and gradually lose ground to close lower on the session. Bullion, which had closed above the $350 an ounce level for the past six trading days, settled a net $3.375 off at $347.375. Gold shares were left with modest falls across the board and the Gold Mines index fell 4.0 to 305.4.

London-domiciled Financials suffered another sharp bout of profit-taking which lowered Rio Tinto-Zinc to 722p before a close of 729p, a net fall of 16.

Traded Options

Total contracts transacted in Traded Options amounted to 27,984 — 23,707 calls and 4,277 puts. Volume was boosted by the expiry of the March series. From next Tuesday, the Stock Exchange is to lift the restrictions whereby the proportion of a company's share capital which can be acquired via traded options is limited to 10 per cent.

FINANCIAL TIMES STOCK INDICES

	Mar. 25	Mar. 24	Mar. 21	Mar. 20	Mar. 19	Mar. 18	year ago
Government Secs	90.18	91.57	91.94	91.09	90.03	88.82	80.78
Fixed interest	94.35	95.11	95.03	94.30	93.59	93.06	84.63
Ordinary ♥	1364.7	1394.6	1412.2	1416.1	1389.5	1374.6	982.0
Gold Mines	305.4	309.4	312.0	310.2	318.1	317.4	600.3
Ord. Div. Yield	3.07	3.88	3.84	3.83	3.91	3.95	4.51
Earnings, Yld. %(full)	9.42	9.24	9.15	9.13	9.31	9.40	11.42
P/E Ratio (net) (*)	13.17	13.45	13.50	13.60	13.33	13.20	10.66
Total bargains (Est.)	38,401	43,770	42,506	41,121	40,491	41,093	26,527
Equity turnover £m.	—	720.29	957.72	985.27	1093.06	753.85	342.83
Equity bargains	—	40,898	43,472	41,104	38,164	37,201	24,586
Shares traded (ml)	—	322.5	371.2	411.5	472.1	337.5	184.8

♥ 10 am 1382.5. 11 am 1374.3. Noon 1365.6. 1 pm 1362.3. 2 pm 1363.3. 3 pm 1368.4. 4 pm 1364.2. Day's High 1386.3. Day's Low 1362.3. Basis 100 Government Securities 15/10/26. Fixed interest 1928. Ordinary 1/7/35. Gold Mines 12/9/55. SE Activity 1974. Latest Index 01-246 8026. *Nil=12.67.

HIGHS AND LOWS

—	1986 High	1986 Low	Since Compilat'n High	Since Compilat'n Low
Govt. Secs.	91.37 (24/3)	80.59 (20/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Int.	95.11 (24/3)	85.55 (25/1)	150.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1416.1 (20/3)	1094.3 (14/1)	1415.1 (20/3/86)	49.4 (26/6/40)
Gold Mines	357.0 (27/1)	257.5 (2/1)	734.7 (15/2/83)	43.5 (26/10/71)

S.E. ACTIVITY

INDICES	Mar. 24	Mar. 21
Daily Gilt Edged Bargains	175.9	223.3
Equities Bargains	225.0	281.7
Equities Value	1455.9	1,056.0
5 day Average Gilt Edged Bargains	810.4	910.7
Equities Bargains	260.5	252.4
Equities Value	1,827.3	1,852.7

FT-ACTUARIES SHARE INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tues March 25 1986 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (ACT at 29%)	Est. P/E Ratio (Net)	xd adj. 1986 to date	Mon Mar 24 Index No.	Fri Mar 21 Index No.	Thurs Mar 20 Index No.	Year ago (approx.) Index No.
1 CAPITAL GOODS (213)	709.29	-1.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	551.17
2 Building Materials (24)	792.69	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	503.65
3 Contracting, Construction (28)	1138.55	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	699.38
4 Electricals (13)	1937.48	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1534.22
5 Electronics (38)	1620.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1703.41
6 Mechanical Engineering (64)	406.24	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	302.78
8 Metals and Metal Forming (7)	321.04	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	198.26
9 Motors (17)	285.14	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	164.81
10 Other Industrial Materials (22)	1298.68	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	954.58
21 CONSUMER GROUP (186)	914.34	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	638.77
22 Brewers and Distillers (23)	939.72	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	566.72
25 Food Manufacturing (22)	658.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	505.51
26 Food Retailing (14)	1576.18	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1475.01
27 Health and Household Products (10)	1538.55	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1029.45
29 Leisure (25)	922.96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	676.43
31 Newspapers, Publishing (13)	2338.46	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1760.33
32 Packaging and Paper (15)	456.79	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	323.09
34 Stores (43)	874.49	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	581.47
35 Textiles (16)	538.63	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	326.87
36 Tobaccos (3)	1128.01	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	916.00
40 OTHER GROUPS (85)	827.82	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	681.21
41 Chemicals (19)	911.09	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	775.99
42 Office Equipment (4)	255.38	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	183.63
43 Shipping and Transport (12)	1621.36	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1134.41
44 Telephone Networks (2)	994.42	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	825.38
45 Miscellaneous (48)	1014.71	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 INDUSTRIAL GROUP (482)	840.75	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oil & Gas (18)	1140.30	-2.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 500 SHARE INDEX (500)	875.58	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP (118)	603.83	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks (7)	662.74	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life) (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite) (7)	491.49	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance (Brokers) (8)	1228.87	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks (11)	355.49	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 Property (51)	727.60	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 Other Financial (25)	349.10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Investment Trusts (103)	737.96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
81 Mining Finance (3)	318.24	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
91 Overseas Traders (14)	658.00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 ALL-SHARE INDEX (738)	796.71	-1.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE 100 SHARE INDEX ♦	1633.8	-30.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST

PRICE INDICES	Tues Mar 25	Day's change %	Mon Mar 24	xd adj. today	xd adj. 1986 to date
British Government 1 5 years	121.78	-0.41	122.33	[illegible]	[illegible]
2 5-15 years	142.66	-1.17	144.44	[illegible]	[illegible]
3 Over 15 years	151.25	-1.39	153.39	[illegible]	[illegible]
4 Irredeemables	169.24	-1.92	172.55	[illegible]	[illegible]
5 All stocks	138.29	-0.95	139.68	[illegible]	[illegible]
Index-Linked 6 5 years	109.32	-0.25	109.60	[illegible]	[illegible]
7 Over 5 years	108.38	-0.45	[illegible]	[illegible]	[illegible]
8 All stocks	108.55	-0.41	109.00	[illegible]	[illegible]
9 Debentures & Loans	122.25	-0.49	122.84	[illegible]	[illegible]
10 Preference	84.53	-0.31	84.98	[illegible]	[illegible]

AVERAGE GROSS REDEMPTION YIELDS: [illegible]

♦ Opening index 1654.6; 10 am 1652.1; 11 am 1634.8; Noon 1634.8; 1 pm 1632.4; 2 pm 1635.0; 3 pm 1636.7; 3.30 pm 1634.8; 4 pm 1634.3.

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, the Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 28p.

●Corrected figures for 24/3/86.

YESTERDAY'S ACTIVE STOCKS

Above average activity was noted in the following stocks yesterday.

Stock	Closing price	Day's change
British Aerospace	565	-41
Burton	312	-10
Combined Eng Strs	217	-17
Imperial Group	342	-5
LASMO	123	-7
Marks and Spencer	205	-7
P & O Defd	536	-12
Trusthouse Forte	192	-5
United Biscuits	227	+1
WSL (nil-paid)	128	—
Woodhead (J.)	50	+11
Woolworth	622	-13

MONDAY'S ACTIVE STOCKS

Based on bargains recorded in Stock Exchange Official List.

Stock	No. of changes	Mon. close	Day's change
RTZ	24	745	-10
British Aero	23	606	+14
Ford (Martin)	22	97	-12
Cmb Eng Strs	19	234	—
Magnetic Mtrls	19	85	-30
Magnetic Mtrls	19	85	-30
BP	17	553	-20
NatWest Bank	17	900	-10
Shell Trans.	17	763	-2
Base	13	217	-2
Cns Gold Flds	13	315	-22
Lloyds Bank	13	646	-12

EUROPEAN OPTIONS EXCHANGE

Series		May Vol.	May Last	Aug. Vol.	Aug. Last	Nov. Vol.	Nov. Last	Stock
GOLD C	$350	80	10	3	9a	—	—	$351.60
GOLD C	$370	70	2 A	—	—	10	25 B	"
GOLD C	$380	37	4	4	11	—	—	"
[illegible]								

TOTAL VOLUME IN CONTRACTS: 41,443

A=Ask B=Bid C=Call P=Put

RECENT ISSUES

EQUITIES

Issue price	Amount paid up	Latest Renunc. date	1986 High	1986 Low	Stock	Closing price	+ or –	Net. Div.	Times covered	Gross Yield	P.E. Ratio
					✠BPP Hldgs. 10p	188	-6	R5.0	2.2	3.8	17.[illegible]
§160	F.P.	18/4	194	180	Chillington Corp.	133	+5	—	—	—	—
¶¶	F.P.	—	140	193	Do. Defd.	70	+2	—	—	—	—
¶¶	F.P.	—	70	23	Gold Greenlees T. 5p	180	-3	R2.9	3.2	2.3	18.[illegible]
165	F.P.	18/4	193	180	Jarvis Porter 10p	122	-7	R3.3	2.6	3.7	14.[illegible]
§105	F.P.	18/4	155	126	Macro 4 5p	138		R1.0	6.5	1.0	21.[illegible]
105	F.P.	14/3	145	112	✠Menvier-Swain 3p	138	+1	R2.3	3.5	2.6	15.[illegible]
§180	F.P.	24/4	140	134	PPL 10p	170		u2.5	6.0	2.1	11.[illegible]
§146	F.P.	4/4	177	133	Rodime 5p	729	-5	—	—	—	3.[illegible]
‖‖	F.P.	—	900	725	✠Spice 5p	90		u2.8	9.2	4.2	12.[illegible]
¶80	F.P.	4/4	96	85	Templeton Galbreith	231	-1	Q5.57c	2.5	1.8	21.[illegible]
913	F.P.	1/8	234	213	Throgmorton USM	102		—	—	—	—
100	F.P.	27/5	109	25	WSL 3p	128		—	—	—	—
‖‖	F.P.	—	143	125	Wellcome	212		u2.08	9.8	1.4	28.[illegible]
190	F.P.	24/3	238	135	Westland Warrants	98		—	—	—	—
—	F.P.	—	29	8							

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1986 High	1986 Low	Stock	Closing price £	+ or –
[illegible]							

RIGHTS OFFERS

Issue price	Amount paid up	Latest Renunc. date	1986 High	1986 Low	Stock	Closing price	+ or –
[illegible]							

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimates. g Assumed dividend and yield. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1986. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ‡‡ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or takeover. ■ Allotment price. ✠ Unlisted securities market. ‡‡ Dealt in under Rule 535 (3). ♥ Dealt in under Rule 535 (4) (a).

NEW HIGHS AND LOWS FOR 1985/6

NEW HIGHS (110)

COMMONWEALTH & AFRICAN LOANS (1). LOANS (3). AMERICANS (12). CANADIANS (3). BANKS (3). BUILDINGS (5). CHEMICALS (2). ELECTRICALS (10). ENGINEERING (4). FOODS (6). INDUSTRIALS (15). INSURANCE (1). LEISURE (3). MOTORS (4). PAPER (3). PROPERTY (5). TEXTILES (3). TOBACCOS (1). TRUSTS (10). OVERSEAS TRADERS (3). MINES (7).

NEW LOWS (67)

AMERICANS (1) Honeywell. CHEMICALS (1) Wolstenholme Rink. STORES (2) Gent (S. R.), Sumrie Clothes. ELECTRICALS (10) CASE, CPS Computer, Continental Microwave, Dubilier, Goring Kerr, INSTEM, Klark-Teknik, Magnetic Materials, Sigmex Intl., Wordplex. ENGINEERING (2) [illegible] Lloyd (F. H.). FOODS (3) Assoc. Fisheries, Avana, Bejam. INDUSTRIALS (9) CCA Galleries, Hollis, Pavion Intl., Do. 11pc Cnv. Ln. 1994-2002, Ramco Oil, Rolfe & Nolan, Toye, Vinten, Wilkes (J.). LEISURE (1) Barr & WAT A. NEWSPAPERS (1) Metal Bulletin. PROPERTY (1) Grainger Trust. SHIPPING (4) Graig Shipping, Lyle Shipping, Do. Pfd. Ord., Runciman (W.). TEXTILES (2) SEFT, Shaw Carpets. OILS (25). OVERSEAS TRADERS (3) Boustead, Polly Peck Intl., Steel Bros. MINES (2) Anglo American Coal, Gopeng Berhad.

TRADITIONAL OPTIONS

First Dealings	Last Dealings	Last Declaration	For Settlement
Mar 17	Apr 4	June 26	July 7
Apr 7	Apr 18	July 10	July 21
Apr 21	May 2	July 24	Aug 4

For rate indications see end of Unit Trust Service

Stocks favoured for the call included Oil Search, Eucalyptus Pulp Mills, Western Selection, WSL, Pentland Industries, Conroy Petroleum, Systems Designers, T. Cowie, Exco International, NatWest, Magnetic Materials, Associated British Foods, Polly Peck, Pavion, John Brown, NSS Newsagents, Barratt Developments, North Kalgurli, F. S. Ratcliffe, Fobel International, Tricentrol, Bioe Arrow, Cannon Street Investments, Wellcome, International City Holdings, Bowater, Cadbury Schweppes, Lasmo, Stylo and Premier Oil. No puts or doubles were reported.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	1	108	3
Corpns. Dom. and Foreign Bonds	7	30	37
Industrials	149	812	534
Fin. and Props.	52	270	247
Oils	12	58	48
Plantations	3	0	13
Mines	29	58	94
Others	118	36	40
Totals	376	1,376	1,013

LONDON TRADED OPTIONS

Option		CALLS Apr.	CALLS July	CALLS Oct.	PUTS Apr.	PUTS July	PUTS Oct.
[illegible]							

March 25 Total contracts 27,984 Calls 23,707 Puts 4,277 *Underlying security price.

WORLD STOCK MARKETS

AUSTRIA

Mar. 25	Price Sch%	+ or —
Credit'nst'lt pp *	2,317	......
Goesser *	5,425	—25
Interunfall *	10,050	—60
Jungbunzlauer *	18,900	......
Laenderbank *	2,150	—20
Perlmooser	705	+0
Steyr Daimler	166	+3
Veitscher Mag *	0,450	+30

BELGIUM/LUXEMBOURG

Mar. 25	Price Frs.	+ or —
B.B.L.	2,780	—30
Banq. Gen. Lux	12,750	+250
Banq. Int.A.Lux	13,700	+100
Bekaert	11,100	+1,000
Ciment CBR	4,860	—160
Cockerill	160	—1
Delhaize	10,350	+400
EBES	4,560	+40
Electrobel	15,975	—425
Fabrique Nat.	0,095	...
GB Inno BM	7,250	—70
GBL (Brux)	3,090	
Generale Bank	5,000	+100
Gevaert	5,640	—140
Hoboken	7,400	—190
Intercom	5,720	—150
Kredietbank	13,700	+60
Pan Hldgs	10,550	......
Petrofina	7,030	—150
Royale Belge	23,700	... ...
Soc. Gen. Belge	0,060	+60
Sofina	5,780	+80
Solvay	7,980	+40
Stanwick Intl	460	......
Tractionel	6,070	—80
UCB	7,150	+110
Wagons Lits	5,460	—40

GERMANY

Mar. 05	Price Dm.	+ or —
AEG	330	+5
Allianz Vers	2,525	+15
BASF	313.5	+4.5
Bayer	331.9	+1.8
Bayer.Hypo	530	—5
Bayer-Verein	570	+7
BHF-Bank	003	+0
BMW	016	+4
Brown Boveri	285.5	—0.0
Commerzbank	312.2	+4.2
Cont'l. Gummi	226	+1.5
Daimler-Benz	1,504	+12.5
Degussa	460	+14
D'sche Babcock	212	—4
Deutsche Bank	812.0	+4.5
Dresdner Bank	433.5xr	+4.5
GHH	249.8	+3.8
Henkel	417	—0.8
Hochtief	920	—18
Hoechst	309.3	+2.5
Hoesch Werke	175.3	—1.2
Holzmann (P)	605	+12
Horten	236.1	+0.1
Hussel	485	+3
Karstadt	400	+6
Kaufhof	489	+4
KHD	303	+1
Kloeckner	96.5	+0.5
Linde	647	+17
Lufthansa	274	+0
MAN	206	+2
Mannesmann	265	—2
Mercedes Hld	1,105	+10
Metallgesell	330	—10
Muench Rueck	3,840	+140
Nixdorf	581	+0
Porsche	1,185	+10
Preussag	241.0	—0.5
Rhein West Elect.	034.5	+4
Rosenthal	381	—1

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

DENMARK

[illegible]

FRANCE

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

AUSTRALIA

[illegible]

JAPAN

[illegible]

HONG KONG

[illegible]

SINGAPORE

[illegible]

SOUTH AFRICA

[illegible]

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO

Prices at 2.30pm March 25

[illegible]

MONTREAL

Closing prices March 24

[illegible]

Indices

NEW YORK

[illegible]

Macy	1,783,900	64⅝	—⅝	Am Tel Tel 5	1,178,600	49¼	+⅞
Comm Ed	1,422,300	33⅛	+⅛	East Kodak	1,152,700	81⅜	+1½
ATT	1,335,300	22⅛	—⅛	Union Carb	1,138,800	20¾	—⅜

Advances 556 Declines 1,840

TORONTO	March 25	March 24	March 21	March 20	1985/86 High	1985/86 Low
Metals & Minls	2,488.6*	2,432.6	2,442.85	2,417.51	2,442.85 (21/3/86)	1740.82 (31/10/85)
Composite	3,013.1*	3,041.3	3,055.3	3,029.8	3,055.3 (21/3/86)	2348.5 (8/1/85)
MONTREAL Portfolio	1,559.82*	1,581.79	1,583.36	1,558.82	1,583.36 (21/3/86)	1,289.48 (4/1/85)

* Indicates pre-close figure

[illegible]

LONDON Chief price changes (in pence unless otherwise indicated)

RISES		
A & G Sec'y	48	+8
Johnson & F	41	+2½
Smith St	51	+7
Tozer	129	+9
Woodhead (J)	50	+11
FALLS		
Tr 10% Cn '90	£101⅜	—¾
Ex 12% '13/17	£129¼	—2⅛
Tr 2½ IL '13	£83¾	—⅜
AB Elect	285	—25
Aquascutum A	85	—8
Beecham	361	—12
Blue Circle	663	—23
Brit Aero	565	—41
Br Car Auc	125	—7
BP	540	—13
Cadbury Sch	175	—8
Com Eng Sts	217	—17
Grand Met	400	—13
HB Elect	48	—7
Hawker Sid	587	—18
ICI	951	—14
Imp Group	342	—5
Jones & S	108	—13
Magnetic M	65	—20
P & O Defd	536	—12
Pilkington Br	425	—18
Rockware	38	—12
Sovereign Oil	47	—13
Unigate	285	—7
Wolstenholme R	190	—15

Prices at 3pm, March 25

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
24	10⅝	AAR s			21	319	23⅛	22⅞	22⅞	−⅛
38	17¼	AFG			17	496	35½	35	35	−¼
25⅜	10¼	AGS			16	45	23¼	22¾	23	−⅜
15	9⅞	AMCA				48	14	13¾	13⅞	−⅛
53¾	37½	AMR			9	2421	53	52¼	52⅝	−⅛
25¾	18⅝	AMR pf2.18		8.6		20	25⅜	25⅜	25⅜	−⅛
25¾	23¼	ANR pf 2.67		11		3	25	25	25	
21¼	10	ANR pf 2.12		10		1	21	21	21	
12½	7⅜	APL			7	5	11⅝	11½	11½	−⅛
16¾	10⅜	ARX			13	20	15¼	15	15	−⅛
55⅝	32¾	ASA	2a	5.3		776	38⅛	37¾	37¾	−1
18⅝	10½	AVX		2.1		121	15⅝	15⅛	15¼	−⅜
29⅞	21⅛	AZP	2.72	9.3	8	713	29½	29¼	29⅜	
61½	48½	AbtLab1.68		2.1	21	1262	u61¾	60¾	61	−½
31⅞	19⅝	AccoWd.50		1.7	21	10	30	29¾	29¾	−¼
24¾	10	AcmeC .40		3.1	18	754	13	12⅞	13	+⅜
9½	7	AcmeE .32b		3.0	15	231	8½	8¼	8¼	−¼
18¾	16⅛	AdaEx 1.90e		10.		66	19⅛	18⅞	16⅞	−⅛
28½	14	AdmMl .40		1.5	12	10	27½	27⅜	27⅜	−⅜
20⅜	8¾	AdvSys1.36t		1.6	17	209	17⅞	17⅝	17⅞	−⅛
34	22⅞	AMD				1108	30¼	29¾	30	−⅜
12⅝	8¼	Adobe n				67	9¼	9⅛	9⅛	−⅛
18⅜	14⅝	Adob pf 1.84		11		18	18½	18¼	18⅜	−⅛
18⅝	15¼	Adob pf 2.40		13		7	18½	18⅜	18⅜	−⅛
17¾	6⅛	Advest .12a		.8	15	110	16½	16	16	−⅜
65	39⅛	AetnLf 2.64		4.2	18	1887	63⅜	62⅝	62¾	−1
57½	52⅛	AetL pf4.97e		9.4		48	52⅞	52¾	52¾	−⅛
85¼	29	Ahmns 1.38		2.2	6	926	62⅝	60⅝	61⅝	+⅞
[illegible]										

Continued on Page 39

NYSE COMPOSITE PRICES

Continued from Page 38

AMEX COMPOSITE PRICES

Prices at 3pm, March 25

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

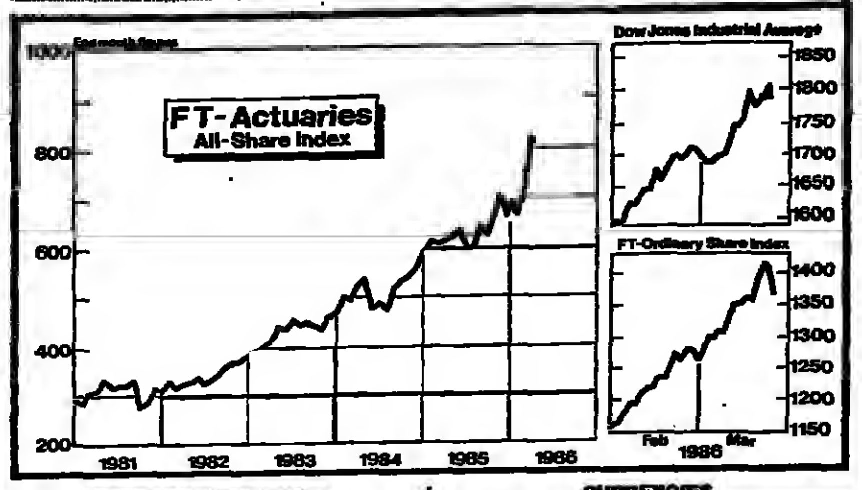
a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begins with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

OVER-THE-COUNTER

Nasdaq national market, 2.30pm prices

FINANCIAL TIMES
WORLD STOCK MARKETS

KEY MARKET MONITORS



STOCK MARKET INDICES

NEW YORK	March 25	Previous	Year ago
DJ Industrials	1,778.58*	1,782.93	1,259.94
DJ Transport	800.29*	809.74	593.00
DJ Utilities	186.81*	186.76	149.16
S&P Composite	233.95*	235.33	177.97
LONDON			
FT Ord	1,354.7	1,394.6	982.0
FT-SE 100	1,633.8	1,663.9	1,297.8
FT-A All-share	796.71	809.64	622.18
FT-A 500	875.58	890.70	679.80
FT Gold mines	305.4	309.4	500.3
FT-A Long gilt	9.26	9.12	10.80
TOKYO			
Nikkei	14,826.87	14,975.33	12,483.3
Tokyo SE	1,183.06	1,192.30	1,002.07
AUSTRALIA			
All Ord.	1,168.0	1,156.8	821.2
Metals & Mins.	596.7	602.8	510.0
AUSTRIA			
Credit Aktien	115.56	114.88	71.19
BELGIUM			
Belgian SE	3,451.04	3,447.83	2,293.80
CANADA			
Toronto			
Metals & Minls	2,400.6*	2,432.6	2,050.0
Composite	3,013.1*	3,041.3	2,595.4
Montreal			
Portfolio	1,559.62*	1,581.79	128.83
DENMARK			
SE	n/a	241.61	179.73
FRANCE			
CAC Gen	323.5	346.3	209.7
Ind. Tendance	138.5	134.4	74.0
WEST GERMANY			
FAZ-Aktien	675.86	674.88	415.10
Commerzbank	2,048.2	2,043.7	1,202.2
HONG KONG			
Hang Seng	1,626.71	1,635.29	1,362.23
ITALY			
Banca Comm.	653.56	671.78	279.10
NETHERLANDS			
ANP-CBS Gen	260.4	262.9	204.5
ANP-CBS Ind	248.6	250.8	166.2
NORWAY			
Oslo SE	354.62	354.71	306.24
SINGAPORE			
Straits Times	600.68	585.98	831.26
SOUTH AFRICA			
JSE Golds	–	1,295.7	1,017.0
JSE Industrials	–	1,189.8	877.2
SPAIN			
Madrid SE	154.89	152.81	82.27
SWEDEN			
J & P	2,075.44	2,036.70	1,409.38
SWITZERLAND			
Swiss Bank Ind	581.0	581.9	426.9
WORLD	Mar 24	Prev	Year ago
MS Capital Int'l	301.7	301.2	201.0

COMMODITIES

(London)	March 25	Prev
Silver (spot fixing)	390.75p	381.35p
Copper (cash)	£998.00	£987.50
Coffee (Mar)	£2,335.00	£2,363.50
Oil (Brent blend)	$12.45	$12.50

GOLD (per ounce)

	March 25	Prev
London	$347.375	$350.75
Zürich	$351.75	$350.50
Paris (fixing)	$353.18	$354.04
Luxembourg	$352.50	$353.10
New York (April)	$344.0	$351.30

CURRENCIES

(London)	US DOLLAR March 25	US DOLLAR Previous	STERLING March 25	STERLING Previous
$	–	–	1.462	1.489
DM	2.3385	2.2865	3.4175	3.405
Yen	180.2	178.85	263.5	266.25
FFr	7.1725	7.02	10.4875	10.455
SFr	1.959	1.917	2.865	2.855
Guilder	2.641	2.5805	3.86	3.8425
Lira	1,589.0	1,552.25	2,323.0	2,311.25
BFr	47.85	46.75	69.95	69.8
C$	1.403	1.401	2.049	2.0871

INTEREST RATES

Euro-currencies (3-month offered rate)	March 25	Prev
£	11⅝	11 7/16
SFr	4 5/16	4 5/16
DM	4 11/16	4 11/16
FFr	13	13½
FT London Interbank fixing (offered rate)		
3-month US$	7 5/16	7 5/16
6-month US$	7½	7½
US Fed Funds	7 5/16*	7 5/16
US 3-month CDs	7.15*	7.15
US 3-month T-bills	6.355*	6.405

US BONDS

Treasury

		March 25* Price	March 25* Yield	Prev Price	Prev Yield
7⅛	1988	100	7.125	100	7.125
8⅝	1993	106 1/32	7.80	105 27/32	7.624
8⅞	1996	108	7.69	107 29/32	7.711
9¼	2016	115 5/32	7.90	115 5/32	7.919

Treasury Index

Maturity (years)	Return index (March 25*)	Day's change	Yield	Day's change
1–30	148.51	+0.08	7.64	0
1–10	141.54	+0.05	7.46	0
1– 3	133.34	+0.03	7.24	–0.01
3– 5	143.59	–0.04	7.58	+0.01
15–30	173.46	+0.20	8.24	–0.01

Source: Merrill Lynch

Corporate	March 25* Price	March 25* Yield	Prev Price	Prev Yield
AT & T				
10⅜ June 1990	101¾	9.85	101¾	9.85
3⅞ July 1990	89½	6.75	89½	6.75
8¾ May 2000	97⅛	9.05	97⅛	9.05
Xerox				
10⅞ Mar 1993	108	8.21	108	8.21
Diamond Shamrock				
10⅝ May 1993	101.21	10.25	101.21	10.25
Federated Dept Stores				
10⅞ May 2013	109⅞	9.60	109⅞	9.60
Abbot Lab				
11.80 Feb 2013	114⅛	10.20	114⅛	10.20
Alcoa				
12¼ Dec 2012	113⅜	10.53	113⅜	10.53

Source: Salomon Brothers

FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
US Treasury Bonds (CBT) 8% 32nds of 100%				
June	97–21	97–26	97–06	97–15
US Treasury Bills (IMM) $1m points of 100%				
June	93.89	93.93	93.87	93.87
Certificates of Deposit (IMM) $1m points of 100%				
June	93.12	93.14	93.10	93.11
LONDON				
Three-month Eurodollar $1m points of 100%				
June	92.81	92.84	92.80	92.81
20-year Notional Gilt £50,000 32nds of 100%				
June	122–11	122–22	122–22	123–23

* Latest available figures

WALL STREET

Hostilities spark new uncertainty

THE OUTBREAK of hostilities between the US and Libya introduced a new and uncertain factor into Wall Street calculations yesterday, *writes Terry Byland in New York.*

Crude oil futures continued to fall on the New York Mercantile Exchange, but the stock market succumbed to a bout of bear selling. Cautious trading in federal bonds brought early gains of half a point.

At the close the Dow Jones industrial average was 4.34 down at 1,778.50.

The broader market also turned down on fears of a general correction.

Escalation of the Middle East conflict would threaten the slide in oil prices which has provided the spur to the US stock market boom. Traders were cautious yesterday as positions were trimmed ahead of the Easter holiday weekend.

The unsuccessful conclusion to the Opec meeting again bore down on oils and the weakness of domestic energy issues brought another fall in the American Stock Exchange index. Technology stocks remained under the shadow of IBM, down a further $1⅛ at $147⅞ after confirming the impending retirement of Mr John Opel as chairman.

But the Detroit car stocks again provided a firm lead to the remainder of the industrial sector, despite news that industry sales weakened again in early March. Initial gains were trimmed, however, leaving General Motors only $⅛ up at $84⅞ and Chrysler $⅞ up at $45⅞.

Ford, benefiting from brokerage recommendation, held on to a gain of $1⅛ at $82⅞.

Chemical stocks came in for profit-taking, which took $1⅛ off Monsanto at $62⅞. Union Carbide shed $⅞ to $20⅞, while Du Pont, fresh from announcing a joint venture with British Telecom, eased $⅞ to $72⅞.

A fall of 0.4 per cent in the February consumer price index unsettled the retail sector. K mart, the discount store chain, lost $1⅛ to $42⅞. J. C. Penney, $⅞ easier at $66⅞, and Federated Department Stores, $⅞ off at $78⅞, lacked supporters. The firm exception was Sears Roebuck which added $⅞ to $47⅞.

A dull airline sector was enlivened when a massive deal in Eastern stock left the shares down $⅞ at $8⅞. Pan Am, shed a further $⅞ to $8.

Amid a host of special situation stocks, CBS, the TV network group, held an early gain of $3 at $149, although turnover was light after the board had denied reports of merger talks and stressed it planned to stay independent.

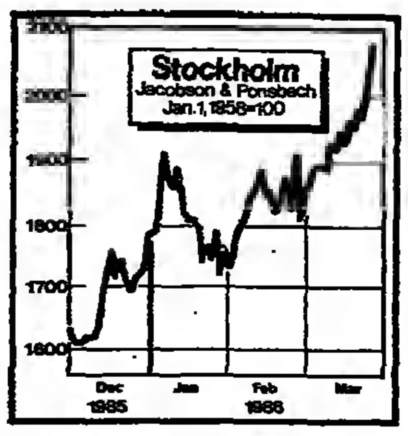
Eastman Kodak, tipped by Wall Street for a reorganisation in the wake of the legal battle with Polaroid, jumped $1⅞ to $61⅞, as more than 1m shares changed hands.

Ashland Oil, at $52⅞, bounded by $4⅞ on the disclosure that the Belzbergs of Canada have taken a stake in the equity.

In pharmaceuticals, Squibb slumped $5⅞ to $88 before trading was suspended because of an imbalance in orders. Wall Street listened to hints that Squibb's Capoten heart treatment drug will shortly be challenged by a new product from Merck, which gained $1 to $161.

Formal bid features included Magic Chef, up $1⅞ at $77 on the $750m offer from Maytag, the washing machine maker which added $⅞ to $47⅞. Nevada Savings & Loan added $4⅞ to $2⅞, against the $25 a share offered by Southwest Gas.

In the credit market, short-term rates remained weak after the eight-year low recorded by rates at the Treasury bill auctions. The bond market held its early gains but made little attempt to move forward.



EUROPE

Some peaks amid the nervousness

DOUBTS OVER world oil prices, the firmer dollar and tension between the US and Libya weighed on some European bourses yesterday, leaving them in a state of nervous tension.

France and Sweden continued to stand out from the crowd, however, registering records again on the back of optimism over local factors.

Paris stretched its rise for a sixth consecutive session as the AGEFI general index put on 8.37 to a record 303.37.

Some depression was noted among oil issues, which reacted to Opec's failure to reach agreement on output. Elf-Aquitaine lost FFr 4.70 to FFr 234.80 and Total FFr 8.80 to FFr 339.

But the dollar's advance assisted export-oriented foods stocks which on Monday had edged lower. BSN, the country's largest food and beverage group which has taken a 15 per cent stake in Générale Bisquit, recouped FFr 120 to end at FFr 4,140 and Perrier, the world famous mineral water supplier, picked up FFr 58 to FFr 656.

Building on the prospects for lower interest rates, construction group Bouygues added FFr 65 to FFr 1,110 and Lafarge-Coppee posted a FFr 80 rise to FFr 1,290.

Large amounts of cash searched for investments in **Stockholm** yesterday, pushing the J&P share index to a peak of 2,075.44, up 38.74.

Foreigners were again active and turnover rose to SKr 481m from SKr 321m in the previous session.

Among blue chips, Electrolux firmed SKr 7 to SKr 292 topping the active list, and Volvo rose SKr 13 to SKr 331.

Saab Scania, which will join Boeing to develop the 7J7 airliner, added SKr 70 to SKr 670 and, in the forestry sector, SCA rose SKr 4 to SKr 213.

In February, foreign purchases of Swedish shares rose to SKr 1.03bn against SKr 592m in January and SKr 573m in February 1985, central bank statistics showed.

Wall Street's overnight performance and the firmer dollar gave confidence to **Frankfurt** investors and prices edged higher.

The Commerzbank index firmed 4.50 to 2,048.20 *despite thin trading.*

Markedly higher profits at Linde pushed it DM 17 higher to DM 647, while Siemens, which is expected to gain from the Start Wars talks with the US, rose DM 19.50 to DM 680. Economics Minister Martin Bangemann is in Washington to conclude negotiations.

Boosted by the higher dollar, VW rose DM 6.20 to DM 582.70 in active trading, while Porsche, which is particularly sensitive to dollar movements, gained DM 10 to DM 1,185.

In the bond market, prices ended as much as 50 basis points higher on foreign support and the Bundesbank reversed its intervention tactics, selling DM 93.7m worth of paper after buying DM 2.9m on Monday.

Nervousness kept **Amsterdam** lower and falls were seen in all sectors as buyers remained on the sidelines.

Banks continued downwards with NMB off Fl 4.50 at Fl 208 and ABN Fl 8 lower at Fl 577.

Bonds ended steady to slightly lower.

Zurich blue chips rose while registered stock, which can only be bought by domestic investors, faded.

Insurers and engineering issues gained, while retailers, food groups and some chemicals saw losses.

Slight profit-taking left **Brussels** mixed. Société Générale de Belgique added BFr 70 to BFr 2,970 after proposing to raise its dividend and seeking approval for a rights issue.

A late rally in **Milan** helped some issues to recoup their earlier losses.

Madrid rose after its previous lower session.

AUSTRALIA

DEMAND for industrials took Sydney to new peaks again and the All Ordinaries index closed 12.4 up at 1,166.0.

BHP lost 6 cents to A$6.46 in nervous trading ahead of a possible revised bid from Bell Resources, down 15 cents at A$4.85. Bell Group, however, added 30 cents to A$7.50 on increased interim profits.

Banks ended mixed with ANZ Group down 6 cents at A$5.82 and Westpac also down 8 cents at A$5.82.

SINGAPORE

BARGAIN-HUNTING gave a boost to Singapore and the Straits Times industrial index closed 14.70 up at 600.68.

Banks were generally higher with DBS adding 2 cents to S$4.52, OUB up 8 cents at S$2.24 and Tat Lee 4 cents firmer at S$2.00. OCBS *was steady* at S$6.15.

Elsewhere Cold Storage was 11p up at S$2.45, Singapore Airlines added 15p to S$6.70, Singapore Press was 5 cents firmer at S$5.65, and Hong Leong Finance was 6 cents higher at S$1.93.

HONG KONG

PROFIT-TAKING, mainly by small investors, left Hong Kong lower. The Hang Seng index closed 8.58 down at 1,626.71.

Utilities were generally lower. China Light lost 10 cents to HK$15.20, Hongkong and China Gas was 20 cents down at HK$12.80, and Hongkong Telephone weakened 10 cents to HK$9.65. However, Hongkong Electric was steady at HK$8.65.

TOKYO

Dispirited by restrictions on trading

THE US-Libya conflict dampened enthusiasm in Tokyo yesterday which fell again on late profit-taking, *writes Shigeo Nishiwaki of Jiji Press.*

Tokio Marine and Fire Insurance, Sumitomo Metal Mining and other shares that had shown good gains on Monday lost ground. Blue chips and stocks linked to the government investment and loan programme also declined in response to the turnround.

The Nikkei average dropped 148.36 points to 14,826.87. Volume also weakened from 744.90m to 640.13m shares, reflecting a cautious mood. Declines outnumbered advances by 595 to 278, with 112 issues unchanged.

Institutional investors and securities companies moved to the sidelines, dispirited by stricter controls on margin trading, international tensions and the yen's slide against the dollar.

After the close, the Tokyo stock exchange announced that the buying balance on margin transactions had swollen by Y104.1bn last week to a record high of Y3,083.9bn. The previous peak of Y3,041.6bn was reached on March 16 last year.

Major issues rich in hidden assets remained popular. Nippon Express topped the active list with 28.76 shares traded and closed Y18 up at Y898 after surging Y30 at one point from the previous day. Mitsubishi Estate, second busiest with 22.75m shares traded, soared Y120 at one stage but later slackened on profit-taking, ending Y80 higher at Y1,950.

Tokio Marine and Fire Insurance finished Y20 down at Y1,310 after rising Y60 in early trading. Sumitomo Metal Mining gained Y70 at one stage but closed Y90 down at Y2,060 on light profit-taking.

The late easing of these popular shares led other issues down.

Nippon Yusen (NYK Line) gained Y9 to Y392 in the morning on expectations of higher international freight rates due to international tensions, but ended Y8 down at Y374 on profit-taking.

Among biotechnology-related stocks, Mitsubishi Chemical Industries firmed Y21 to Y594, and Toray Industries Y35 to Y569.

Cotton spinners, main gainers on Monday on the strength of off-the-book assets, closed mixed. Toyobo added Y11 to Y374 with 13.63m shares traded, while Kurabo eased Y19 to Y411.

Bond price fell sharply after the dollar's surge to above Y180 at one stage. The yield on the barometer 8.2 per cent government bond due *in July 1995 climbed* from 4.645 to 4.690 per cent.

However, institutional investors did not move to sell, anticipating that the Bank of Japan would soon cut its discount rate again. Inter-broker trading *remained light.*

LONDON

Sharp fall on sterling and oil worries

FALLING oil prices took London sharply lower for the second consecutive session as hopes of lower interest rates faded.

The FT Ordinary index recorded its largest-ever loss in points terms of 29.9 to 1,364.7 as profit-taking set in and sentiment was further weakened by the US-Libya hostilities.

Among actives P & O Defd, which reported higher profits, lost 12p to 536p. United Biscuits managed a 1p rise to 237p on news that the Government had cleared the way for it to bid for Imperial Group, down 5p to 342p.

Government securities were also hit with longer bonds featuring losses extending to 2¼ before edging away from the day's lowest. Shorter maturities settled with losses stretching to ¾.

Chief price changes, Page 37; Details, Page 36; Share information service, Page 34-35.

CANADA

THE LOWER trend on Wall Street filtered through to Toronto which traded generally weaker.

Hiram Walker Resources traded C$⅞ down to C$32⅞ on news of a C$2.5bn credit facility. Elsewhere, Gulf Canada was C$⅞ down at C$16⅞, while among active industrials Genstar traded C$⅞ higher at C$58 following a takeover offer from Imasco, up C$⅞ to C$31⅞.

Montreal also edged lower.

SOUTH AFRICA

AN EASIER trend was evident in Johannesburg ahead of the holiday weekend. Some worries over the rand also affected prices.

Among golds Buffelsfontein slipped 50 cents to R19.50, Gold Fields closed R1 lower at R42.75, and Driefontein lost 50 cents to R55.75.

SECTION III

FINANCIAL TIMES SURVEY

Austria

Austria has become a byword for social consensus. Economic performance is good, but difficulties in state-owned industry show that harmony has its costs. Scandals, too, have heated up debate in an election year.

Mount Schafberg viewed across the lake and township of Mondsee, gateway to one of the classie Austrian tourist areas in the Salzkammergut.

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Consensus on trial

By W. L. Luetkens

AUSTRIAN attitudes when things went wrong, as they generally did in imperial times, were summed up in a pithy little saying: "In Vienna the situation is always hopeless, but never serious."

If you listen around today, opinions differ obout the degree of hopelessness. But nobody donbts that things are serious.

Look at the catalogues of bad pnhlicity that Austria has had of late: adulterated wine; a minister disgraced for giving himself unanthorised loans from a trade union treasury; a presidential candidate accused of having belonged to Nazi organisations, which he stoutly denies.

A nationalised company plunged into huge losses aggravated by an ill-judged excursion into oil speculation; an insurance company chairman was detained on suspicion of having dipped into company funds to help his personal and political friends.

That list has obscured the image of Austria as a country of industrial peace (which it still is), of full employment (which it almost is), and of low inflation (which it also is).

All the bad news has prompted Dr Rudolf Kirchschlaeger, the generally respected President, to speak out ogainst excesses of greed and against the revival of the entrenched attitudes of ihe pre-war past, when "reds" and "blacks" were not even on speaking terms. The implication was that the basic political consensus of the post-war second republic was in danger. But is it?

Competition

Clearly it is under strain. In the midst of a presidential campaign and with a parliamentary election to follow hy April 1987, the political vocabulary has become extremely rough. Faced with the losses of an overmanned puhlic sector and increasing international competition, some younger employers are heginning to wonder whether too high a price has been paid for industrial peace.

The Government of Dr Fred Sinowatz, the Socialist Chancellor, has accepted that state-owned industry has to be "redimensioned," the euphemism for redundancies and even closures. "Greens" in all parties are questioning traditional values.

All these are symptoms, perhaps more significant than the scandals, that the elite across the main parties wbich has ruled Austria since the war and to which the country owes mnch, has lost some of its sense of purpose. One suggestion is that things have simply become too easy: Austria has been brought from rags to riches, and its national identity has heen establised in the popular mind—something that the first repuhlic (1918-38) signally failed to do.

Dr Sinowatz puts it like this: "Our vision (that of the generation which worked for these achievements) has become today's daily reality. The young take it as a matter of course."

The Chancellor adds that the political parties must find means to give younger people quicker access to political influence. Indeed, especially among the young, cynicism about the system is widespread. It has heen deepened hy the scandals, hut no less hy an inahility to deal with some obvious problems.

For instance, botb main parties (ond probably a majority of the electorate) would like to reverse the result of a referendum wbich, for 7½ years, has prevented the commissioning of the only Austrian nuclear power station. But they have not found a way of staging a new vote for fear of losing political points to each other and to the anti-nuclear movement.

Against that desultory backdrop some babitual pessimists are reviving memories of the 1930s. That is absurd. There are no private armies marching; there is no widespread and abject poverty; a fourth successive year of economic growth is in prospect; and the unemployment ratio of less than 5 per cent must look enviable even to the successful West Germans.

That is not to say that political passions are not running bigh, nor that there are no remnants to he found of authoritarian attitudes. When foreigners uncover part of the Nazi past in Austria the popular reaction tends to be: "Why don't they leave us alone after all those years."

Coalition

Dr Kurt Waldheim, the conservative candidate for the presidential election in May, may actually have gained in popular support when allegations, which he denied, were raised against him.

But through the shouting one can still clearly hear signals that bridges have not been hroken between Government and Opposition. Neither Dr Sinowatz nor Dr Alois Mock, leader of the conservative Austrian People's Party, have ruled out the possihility of a coalition between their parties replacing the present so-called "Little Coalition" of Socialists and the small Freedom Party. There is much hankering in public opinion after the days of the People's Party/Socialist "Grand Coalition" of the 1950s and 1960s.

The case made for renewing that successful alignment is that only such a coalition would have the stamina to deal with the problems confronting Austria. The case against is simply that without effective parliamentary opposition a Grand Coalition might muddle on, dispensing patronage and cbanging little. You can pay too much for cancensus in political and economic rigidities.

Where are the areas where change is needed? Agreement is widespread that the budget deficit of more than 4 per cent of gross domestic product needs to be reduced; that a proliferating welfare system has to be pruned; and that nationalised industry needs to be re-organised. Inevitahly there is little agreement on method.

The People's Party advocates tax cuts to tackle the deficit from the supply side: the Socialists are sceptical. The People's Party preaches deregulation to free entrepreneurial dynamism; again the Socialists are sceptical.

The People's Party advocates a measure of denationalisation but is not exacily Thatcherite about it. Its programme calls for a reduction of the stale stake in nationalised industry while leaving control with the state. It also wants the state to run down its holding in the two state-owned banks from about 60 per cent to 51 per cent.

Agreement

Differences, therefore, are pronounced, quite apart from the rivalries huilt into any party system. But they are not unbridgahle if the outcome of an election should call for it. One point of inter-party agreement that is of particular interest to the outside world is that the hard currency policy long pursued in Austria, meaning that the schilling should remain stable vis-a-vis the D-mark, is not controversial. Even if pressures build up from the outside at some future date, great efforts will be made to keep the schilling hard.

The financial experts of the parties know that in the long run such a policy requires a consolidation of the budget without which Austrian credit in the world financial community would eventually fade.

Thus the evidence suggests that in spite of the heat of current political debate the hasic consensus is retained in Austrian society. The parties are not really at daggers drawn. Labour-employer relations are rational and almost as peaceful as in Switzerland.

The shock of losses at the nationalised industries has encouraged all to think over their attitudes. Provided good intentions are put into practice, that shock may prove wholesome.

To return to the opening words about crises in Austria one might quote Dr Mock that "we are in a serious situation, hut it's not a catastrophe."

Socialists call for self-cleansing

Politics

PATRICK BLUM

AT A time when the political scene is dominated by election fever, the popularity of Austria's ruling Socialist Party (SPO) is being seriously eroded by scandals and on increasing number of members are voicing a desire for a thorough self-cleansing of the party.

After more than 15 years in power—alone until May 1983 when it lost its absolute majority in parliament and in a coalition with the small right-wing Freedom Party (FPO) since then—the Socialist Party is no longer offering the certainty and clarity of purpose that characterised Socialist administrations during the 1970s.

The party which once stood for an uncompromising policy of full employment through deficit spending, and for unequivocal support for Austria's large nationalised sector, today appears hesitant, and its critics would say, incompetent.

"We have always supported a policy of full employment. Now they (the Government) are acting as if the problem and many others do not exist. There is an enormous amount of waste and corruption but nothing is done," a young Socialist Party official says.

Such opinions are widely shared and go some way to explain the public disillusionment and cynicism with which politicians are increasingly regarded.

They also partly explain the decline in the Socialist party's appeal. According to an opinion poll the party has for the first time in many months fallen behind the conservative Opposition People's Party (OVP). In just one month between December and January, support for the SPO fell from 45.2 per cent to 43.8 per cent.

Much of this decline is attributed to the crisis at Voest-Alpine, the state-owned steel and engineering group. The company's record losses of Sch 11.1bn, almost a third caused by speculation on the oil markets, shocked public opinion and led to calls for the resignation of Mr Ferdinand Lacina, the minister responsible for the nationalised industries.

While the Government parties could expect to see o fall in their standing at this stage in the parliament's life, the decline in the Socialist Party's popularity has become a growing source of concern among the party hierarchy.

Presidential candidates Kurt Steyrer (left) and Kurt Waldheim

The drift in support is not irreversible, but there is a disenchantment both inside and outside the party among its supporters or potential supporters which will be difficult to counter. Disillusionment is greatest among the young, women, and the left of the party, but there have also been rumbles among its solid core of supporters in the trade unions.

Sharing

The socialists can draw some consolation from the fact that the People's Party has not found the going any easier. According to the same poll, support for the OVP also fell, although more modestly, from 45.7 per cent to 45.1 per cent. With less than two months before the presidential elections and just over one year before a general election, neither of the main parties is doing well.

The current public mood suggests thot for the first time in the present parliament's lifa the OVP can hope to be part of the government after the general election (due by April 1987). With neither of the main parties likely to win an absolute majority, Dr Alois Mock, the People's Party leader, is banking on his party sharing power with the Socialists in a grand coalition of the type that ruled Austria from the end of the Second World War until 1966.

"There is a majority in favour of a grand coalition. It would be best for the country," he says.

The Socialist Party is divided on the issue. Dr Fred Sinowatz, the Socialist Chancellor, is satisfied with the present small coalition and shows no inclination for a change which would force him to share power more evenly with the People's Party. The left of the party would prefer either a minority Socialist government or a period of opposition, but many Socialists still hanker after o grand coalition.

Much of this will hinge on what happens in the presidential elections. If Dr Kurt Waldheim, the former United Nations Secretary General, loses after running as an independent candidate with the support of the OVP, the party is expected to face serious difficulties of morale.

The same applies to the Socialist Party. All Austria's presidents have either been Socialists or elected with the support of the Socialist Party. A defeat for Dr Kurt Steyrer, the Socialist candidate, would not only break with tradition but also undermine Dr Sinowatz's leadership of the party and encourage those who want to return to first principles through a period of opposition.

For the Government and the Opposition the presidential elections will be an important test and a sounding board for the more important general elections. This explains why the campaign has become so heated.

The biggest row was over allegations suggesting thot Dr Waldheim had been a member of Nazi organisations. Dr Waldheim vigorously denied the allegations which he said were part of a smear campaign to undermine his bid for the presidency. The imputation was that the allegations hod come from within the Socialist Party, which was in turn denied by both the party and the Chancellor.

The row, and Dr Waldheim's energetic denials, appeared to have improved his chances through a rush of public sympathy.

A Gallup poll shows Dr Waldheim leading with 35 per cent and Dr Stayrer with 33 per cent. Another 6 per cent went to the two other candidates and 26 per cent remained undecided.

Timetable

The race will be a close one. Support for the two smaller candidates may force a second round of voting, prolonging what has been an unusually rough campaign. Ms Freda Meissner-Blau, the "Green" candidate, is expected to win the bulk of the protest vote in spite of having to face an embarrassing controversy over pension payments.

The other candidate is Mr Otto Serinzi, a dissident member of the Freedom Party, known for his extreme right-wing views. His impact is expecled to be more limited.

With electoral considerations dominating, few decisions are being taken. This has led one commentator to say that Austria now had "a lame-duck government." After the Voest-Alpine crisis, the Opposition called for early elections, but tha election timetable remains firmly in the Government's hands.

The Freedom Party, with its support running at about 3 per cent, faces a potential electoral collapse and it will want to hold off an election as long as possible. Chancellor Sinowatz has insisted that the Government will remain in power for its full term of office.

Patrick Blum profiles the two candidates for the presidency

Kurt the diplomat v. caring Kurt

"KURT for president," says the badge. The slogan can hardly be controversial as it is fairly safe to predict that on May 4 Austrians will elect as president either Dr Kurt Steyrer or Dr Kurt Waldheim.

Dr Steyrer, the Socialist candidate, is campaigning strongly on the theme of continuity, presenting himself as a natural successor to Dr Rudolf Kirchschlaeger, the Socialist-backed president who has reached the end of his second term of office and has to step down.

Dr Steyrer is a sympathetic man of humble origins who studied medicine and worked as a dermatologist before entering parliament in 1975 and the Cabinet in 1981. He shares with Dr Kirchschlaeger a down-to-earth avuncular image. His campaign has tended to stress personal qualities as a caring conscientious professional rather than as a political statesman. He gives the impression of preparing to look after Austria much as he looked after his patients.

Dr Waldheim, standing as an independent with tha support of the Conservative People's Party, has pitched his campaign on a loftier plane. He is amphasising his international experience as a former diplomat, foreign minister and, from 1972 to 1982, Secretary-General of the United Nations. A television commercial shows him shaking hands with a seemingly endless succession of world statesmen past and present, posed against the skyscrapers of New York or striding to the podium at the UN.

Remoteness

His campaign slogans, "a man the world trusts" and "his experience for us all," perhaps gleam less bright since the row over allegations suggesting that he had been a member of Nazi organisations and casting a shadow over his activities during the Second World War. Dr Waldheim has vigorously denied the allegations and described them as a smear campaign. His slogans nevertheless have an appeal for many Austrians sensitive to their country's standing in the world.

But Dr Waldheim, the son of a teacher, has been careful to cultivate the common touch, returning to his home village in lower Austria for his birthday (and the TV cameras) to drink a few rounds with the locals. Episodes like these do not altogether dispel the impression of remoteness, even elitism, given by a man who is reputed to hanker after ceremony and high office.

The controversy over Dr Waldheim's war record seems to have enhanced — at least temporarily — rather than damaged his chances of success. Since his energetic denials of the allegations he has benefited from a rush of sympathy. Abandoning his lofty diplomatic style, he has pledged that he would make the role of the president more active and interventionist.

Decorative

Dr Steyrer's camp, dismayed at the negative impact of the accusations against Dr Waldheim, have distanced themselves from them. Dr Steyrer has committed himself to a gruelling schedule of meetings which he hopes will take him to some 80 per cent of Austria's towns and villages. This, he estimates, will add an extra two or three percentage points to his vote, a small but he believes crucial difference that may win him the presidency.

With his slogan "I believe in our Austria," he hopes to win support by appealing to the electorate as a man of the people.

In spite of its largely decorative function, the post of President does carry some important powers. The President has the power to appoint the Federal Chancellor — an important consideration in a country where coalitions are common. He may also dismiss the Chancellor and the whole government, dissolve parliament and call new elections.

The nature of the job — above party, above class, and above government — has led to similarities in both campaigns. In this strongly Catholic and predominantly rural but prosperous country, tha themes of stable family life, the joys of natnre and the countryside, are emphasised by both candidates. Both men wish to appear unifying, uncontroversial and above all non-partisan.

Austria 3


Karle Pale, director general of Girozentrale Bank (left), and Franz Vranitzky, Finance Minister

Braced for tough years under new regulations

Banking

PATRICK BLUM

FINANCIAL institutions in Austria showed strongly improved results for 1985, with sustained growth of business volumes and a marked rise of earnings. Profit margins, however, remain low by international standards and the banks are bracing themselves for tougher years ahead as they face new regulations designed to improve capital ratios and efficiency.

Last year's most significant event was a gentlemen's agreement drawn up by the banks to curtail voluntarily the cut-throat competition which followed deregulation in the late 1970s. The agreement sought to regulate lending and borrowings rates and to curb "unfair" advertising practices. The move established what, in all but name, is a cartel.

There were several reasons why the banks decided to take remedial action. Austrian financial institutions suffer from some of the lowest profit margins in their field among OECD countries. In the late 1970s and early 1980s operating costs soared while provisions against foreign lending strengthened considerably.

By 1983, the banks' capital base had deteriorated to the extent that the ratio of capital to lending had fallen to 2.5 per cent from 3.8 per cent in 1973, *reaching about half the level 20 years earlier.*

According to a study by one of Austria's main banks, net interest income (difference between interest received and interest paid) in relation to balance sheet totals fell by more than 36 per cent from 2.2 per cent in 1974 to 1.4 per cent in 1984. This is attributed in part to a disproportionate growth in foreign currency business which incurs lower costs.

Several domestic factors affected the banks. Since 1977 Austrian banks have been able to start new branches without having to demonstrate the existence of a need to the Finance Ministry. This encouraged a *scramble to open* branches, which pushed up costs and further depressed profit margins. The Bank Act of 1979 and the subsequent reform of the Savings Bank Act completed effective transformation of credit institutions of any size into universal banks on the West German and Swiss models.

These measures to some extent sanctioned a process that had already gone a considerable way in preceding years. The *traditional segregation* between the various banking groups, commercial banks, savings and other specialised institutions dealing with agriculture and small business had already been eroded, but the results cut deeply.

A study *for the OECD* in 1983 on costs and margins in banking showed that profit before tax for Austria's joint stock banks fell by more than 22 per cent between 1979 and 1980. In spite of a small recovery during the following two years, by 1982 it was still lower than before the low was introduced.

Operating costs rose rapidly, increasing by 33.3 per cent between 1979 and 1982 for the joint stock banks and by 37.6 per cent between 1978 and 1981 for the *savings banks. Most of* the increase was due to the expansion of branch networks. All bankers now agree that deregulation went too far and too fast.

Self regulation

To make matters worse, a long public discussion began in the early 1980s about the introduction of a new flat rate tax deducted from interest paid on bonds and deposits. A rate of 7.5 per cent was finally imposed on January 1 1984 (since reduced to 5 per cent) with serious side-effects for the banks. Savings accounts stagnated, there was a sharp increase in industrial clearing (a system by which companies avoided the tax by lending directly to each other) and demand for foreign bonds and securities grew, which adversely affected the domestic market.

The combination of these factors encouraged the banks to seek some form of self-regulation. But even the most optimistic of Austria's bankers admit that last year's quasi-cartel could not be sustained indefinitely and that legislation was to some extent inevitable. That is why, in spite of initial protests, most bankers have accepted with some reservations government plans to amend the law.

The prime objective of the new law, to be presented to parliament before the summer, is to make the banks more efficient. Government officials believe that this could not be achieved by the banks' voluntary agreement.

The draft law stipulates that banks must raise capital ratios to 4 per cent of balance sheet totals within five years and by another half per cent to 4.5 per cent within the following five years. *It* sets out new instruments, including two types of participations and subordinated capital to help the banks raise money. This is roughly equivalent to risk bearing, non-voting share capital which will carry higher distributions than for ordinary share capital but will receive no distribution in the case of losses.

Finance ministry officials say that the total amount of capital to be raised by the banks to bring capital ratios to the full 4.5 per cent would be between Sch 50bn and Sch 100bn, depending on the rate of growth of the banks' balance sheets. Assuming a 5 per cent growth rate, the amount to be raised would be in the region of Sch 85bn.

Dr Gerhard Wagner, chairman of Oesterreichische Laenderbank, believes that to raise such amounts the banks will have to seek at least some of their new capital outside Austria.

Finding the new capital will not be easy. Dr Karl Pale, director-general of the Girozentrale Bank, which acts as clearing bank for the savings banks, says that the law is necessary but that seven years would be better than the five proposed to reach the target.

Smaller banks fear they will be put at a disadvantage when raising capital. Most at risk are the Volksbanken, the small business and trading co-operatives. Many are under-capitalised and some of the large joint-stock banks are looking for pickings from this sector.

Some smaller savings banks may also face problems. Senior bankers believe that the law will inevitably lead to some restructuring within the banking groups.

This is not causing alarm at the Finance Ministry. Dr Franz Vranitzky, the Finance Minister, believes that Austria is over-banked and that some restructuring may not be such a bad thing.

Dr Hannes Androsch, director-general of the Creditanstalt Bankverein, agrees. "The Austrian banking business has to be streamlined. We must raise our competitiveness by international standards. We have had competition without profits; now we will have greater profit-mindedness," he says.

Whether the targets set by the Finance Ministry will be fully met is open to question, but some improvements in the banks' position seems more likely than at almost any time in the past decade.

Hard currency and anti-cyclical budgetary policy hides weak points

Growth assured by oil price fall

Economy

W. L. LUETKENS

AUSTRIA has set out on its fourth successive year of economic expansion and economists say that the collapse of world oil prices should ensure continued growth in 1987. The country is a heavy net importer of energy, so trade balance, disposable incomes and overall demand should all profit.

In Austrian currency the decline of the oil price will be accentuated by the fall of the dollar exchange rate. Given the limited presence of Austrian exporters on North American markets the adverse effect of the dollar devaluation upon Austrian exporters should be bearable—hard though it has already hit, for instance, the steel industry.

Wifo, the Vienna economic research institute, has revised its forecasts for 1986 on the assumption that the barrel price of crude oil will average at $20 against $28 last year, and that the dollar will trade at Sch 16 (against Sch 20.7). That would make real growth of 3 per cent possible, an inflation rate of 2 per cent, and a current account surplus around Sch 5bn.

On more favourable assumptions of a price of $14 and a dollar exchange rate of Sch15, growth should be higher by another half percentage point and the inflation rate should come down to 1½ per cent. Under either scenario, unemployment should average a shade less than 4.9 per cent, low by most European standards, but not by those of Austria.

These good results are expected to come on top of a 10-year period during which Austria, unlike many other countries, sustained only two years of economic contraction—by 0.4 per cent in 1975 and 0.1 per cent in 1981. That record is due largely to a combination of an anti-inflationary hard currency policy and an expansive anti-cyclical budgetary policy. It has, however, become widely accepted that the anti-cyclical component of the policy mix has helped merely to cover up certain weak points in the Austrian economy.

These weaknesses became apparent well beyond the borders of the country last November when the state-owned steel and engineering concern Voest had to admit to heavy losses. While the causes were manifold, overmanning and excessive dependence upon goods of only average sophistication ranked high among them. Both problems exist within private industry, though generally to a lesser extent.

Another sign that things are not as they ought to be is a persistent budget deficit. The struggle to consolidate the budget has gone on since 1981 with at best partial success.

Expressed as a portion of GDP, the deficit (including interest on the national debt but excluding repayments) soared over 5 per cent in 1983, came back to 4.7 per cent in 1985 and is estimated at 4.5 per cent this year. Before 1982 it was less than 4 per cent.

Estimates for 1986 need to be taken with a pinch of salt: the gross deficit (including debt service) last year came out higher than originally estimated and could do so again this year, in spite of growth prospects which are better than assumed when the budget was drawn up.

Dr Franz Vranitzky, the Finance Minister, identifies the areas where economies will have to be sought. Nationalised industry will have to be brought out of the red in three to four years, he says. Personnel policy in the public sector will have to be cautious. Something will have to be done about the losses of the railways, where some line closures have been carried out. And in the medium-term, reforms to the welfare system need to continue.

Welfare is an especially delicate point with a parliamentary election due by next April. But a first measure of retrenchment has failed to prevent welfare costs rising as a proportion of the federal budget. Overall welfare costs in 1986 are budgeted at Sch 126bn in total federal expenditure of Sch 493bn.

Dr Vranitzky says that efforts in these areas will have to be made in every year of the 1980s, implying that he hopes to see his aim achieved by 1990. To that end he (or his successor after the election) will have to assure himself of a great deal of political support, which has not always been forthcoming.

Failure would place in doubt the hard currency policy which consists of managing the Schilling to maintain a parity about Sch 7.03 to the D-mark. That policy has been the cornerstone of the Austrian way to control inflation. It has involved keeping interest rates slightly above those in Frankfurt, but has not generally imposed excessive strains. If the budget consolidation is delayed too long that could change.

At present there is no need to doubt the constant official assurances that the D-mark exchange rate will be maintained both because the policy has succeeded, and because departing from it would cause heavy costs. In his budget papers, Dr Vranitzky estimated that every percentage point of devaluation would cost him Sch 200m a year in enhanced interest payments on the republic's foreign debt.

More important, the hard currency policy, by keeping down the cost of imported consumer goods, is a condition of the trade unions' traditional wage restraint.

Nonetheless, some entrepreneurs are beginning to worry about the consequences of Austria following further increases of the value of the D-mark within the European Monetary System upon Austrian competitiveness in the markets other than West Germany. The Association of Industrialists, however, remains wedded to a hard schilling.

A further appreciation of the schilling, added to the decline of the dollar would also hit the Austrian tourist trade, with its foreign exchange income (net of Austrian spending abroad) last year of Sch 45bn. The impact will be lessened because Germans, with their D-marks, accounted for 52m overnight stays in Austria in the first 11 months of 1985 out of 82m overnight stays by foreigners.

There are no particular fears for the winter seasons, but in the summer Austria has been losing market share to more southerly tourist countries.

The real problem with both the budget and the current external account, and hence the exchange rate, is that both would be vulnerable to downturn. Once growth ceases, budget cuts will be harder than ever to make. And though the current account was almost in balance last year and is expected to show a surplus in 1986, if world trade contracts that surplus may rapidly melt away.

Performance and prospects

%	1985	1986
GDP growth	3.0	3.0
Unemployment	4.7	4.9
Increase of consumer prices	3.5	2.0

Source: Wifo, partially revised on assumption of an oil price of $20/barrel and exchange rate of $1=Sch 16.

Balance of Payments

	1983 Sch m	1984 Sch m	1985 Sch m
Current account	− 1,324	−10,848	− 1,982
Including merchant trade	−68,518	−77,634	−65,272
Capital account*	+ 638	+13,725	−13,223
Including Long term	−23,404	− 6,817	− 4,020
Errors and omissions†	− 7,137	− 1,238	+12,012
Reserve change	− 1,326	+ 6,334	−10,802

* Excluding official reserves. † Largely attributable to current transactions.

Source: National Bank

Stuffiness and enterprise laced with kitsch

Vienna

W. L. LUETKENS

THE WITS had a field day when Vienna commemorated Alban Berg, one of the greats of modern music and a member of the so-called second Viennese school of composition. Was the occasion intended to celebrate the centenary of his birth, in 1885, or the 50th anniversary of his death, in 1935?

That mischievous little joke does hit something very typical of the Austrian capital. Vienna is deeply conservative and at the same time can be a hotbed of novelties. Its theatre and operagoers—perhaps even its football fans—live the old stars, not the upstarts.

Yet the intellectual ferment of the last generetion before the fall of the Austrian empire in 1918 has a claim to be regarded as one of the cradlea of modern art and thought. The great names come to mind readily: Freud, musicians like Mahler and Schoenberg, architects like Otto Wagner and Adolf Loos, painters like Klimt and Schiele, who have only lately been discovered by the international art world.

All were celebrated in a blockbuster exhibition in Vienna last year, which bas moved on to Paris and will open in New York on June 30. The show was planned by Hans Hollein, the architect, who is in the midst of a typical Viennese cultural storm.

Mr Hollein has designed a building for a corner of the square surrounding the celebrated cathedral of St Stephen in the centre of Vienna. The conservationists are outraged because they say a view of the cathedral will be blocked. They forget that the view was not open until Second World War bombing.

The co-existence of conservatism and progress, between stuffiness and enterprise, laced with a measure of kitsch, characterises Vienna to this day. The dignity of the baroque town palaces of the former nobility contrasts with the pomp of late 19th century piles along the Ringstrasse—long ago turned intn offices—and with the starkness of council housing.

In the 1920s, Viennese council bousing was regarded as a model for Europe. Red Vienna, as it was called by friend and foe, was a showpiece of socialism in action, though the socialist city government was following in the footsteps of 19th century populists who had little in common with socialist teaching. Their counterpart was Chamberlain'a Birmingham in the UK.

Vienna has remained "red" to this day. Socialists reign in the city hall and about 200,000 flats — a quarter of the honsing stock — belongs to the council. Subsidies have been beavily cut, but even so rents are intended to cover no more than running costs. Capital costs are born by the city.

Profitable

Tenants enjoy what almost amounts to rigbts of ownership. (They can even pass on flats to their heirs.) The Conservative oppositioπ will find it hard to gain support for its proposal to sell council bousing as has been done in Britain.

Municipal socialism bas also given the city a group of non-utility enterprises, from a porcelain factory to construction companies, employing 6,500 people. Mr Hans Mayr, deputy mayor and the man in charge of the city's finances, says that on aggregate these enterprises are profitable.

He intends to set aside Sch 20m (about £870,000) a year to provide venture capital enabling the city to support promising new entrepreneurs. Tha entrepreneur will have the rigbt to buy out the city's holding at any time.

That amount is tiny when compared with the money Mr Mayr has available for industrial incentives. His war chest has risen to Sch 300m and he could find more if needed. About a third of the sum has been earmarked for a contribution to the capital costs of a General Motors plant, the second in Vienna. The Austrian Government is providing twice that amount, leaving GM to foot 73 per cent of the bill.

These befty subsidies are controversial. Critics aay the cost to the community outweighs benefits in employment. Moreover, the revulsion against industry so common in the Green movements of the German-speaking countries has not passed Vienna by. A great deal of fuss has been kicked np about plans to harness the Danube near Vienna for a hydroelectric power station, for example. Mr Mayr says that the city ia likely to try increasingl to develop its services sector.

Internationally speaking, the most important part of the Viennese services industries is tourism. About 2m tourists last year spent 5.5m night in Vienna —7 per cent more than in 1984, and a record figure after 10 years of growth.

What hrings all those people to Vienna? The monuments of an imperial past, often splendidly restored: one of the world's leading opera bouses and one of its leading orchestras; art galleries (watch out, many close on Mondays); the stereotypes of Viennese Gemuetlichkeit, Apfelstrudel, zither music and the young wine (never mind last year's scandal about adulterated wines from Austria). Vienna also enjoys a repntation for streets without muggers. But do obey pedestrian lights. Driving habits are sharp and a Viennese zebra crossing is not recommended for playing "chicken."

Hotels have been enjoying a 50 per cent occupancy rate, which sounds low but is reasonable by the standards of the business. Plans exist to add 4,600 beds, mostly in four- and five-star botels, to the 32,400 hotel and pension beds available.

Filling them will pose problems. The traditional Viennesa luxury hotel with its ample, helpful staff may have difficulties competing with some of the American-style new botels, especially since next to the Germans, Americans are tha most numerous visitors, with the Japanese coming ninth and growing in number.

Controversy

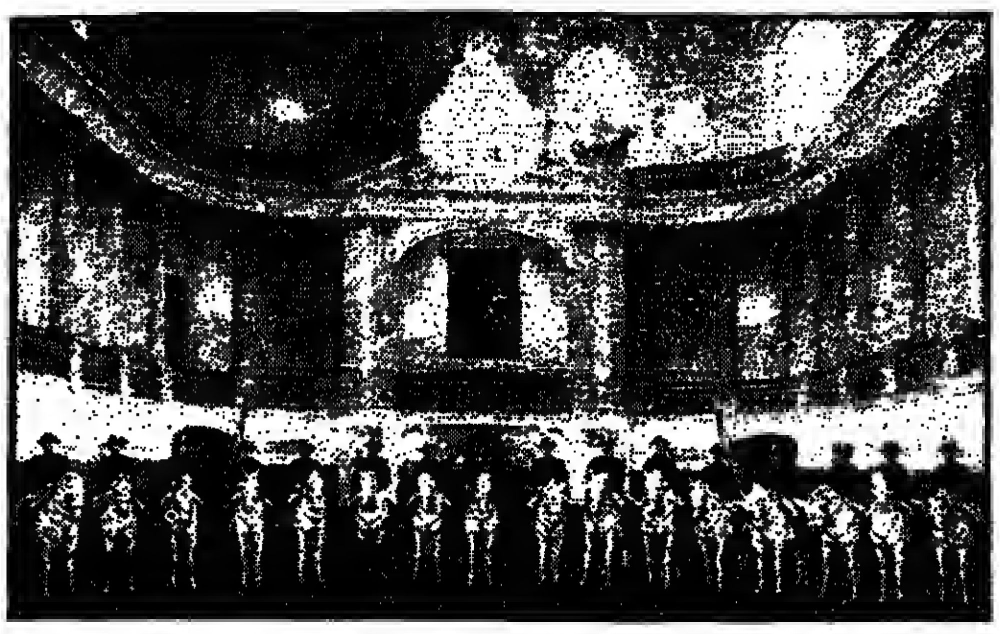
City authorities hope that a new conference centre big enough to accommodate 9,000 people, will belp to fill the botels. It, too, has heen the cause of controversy, because the public purse will have to wait a long time before recovering its investment. An older, smaller, and more glamorous centre already exists in the Hofburg, the former imperial palace.

The new centre bas been built next to the futuristic towers of the Vienna International Centre, known locally as the Uno-city because it has been leased to the United Nations as the organisation's third most important office complex after New York and Geneva.

The complex, lying forlornly on the northern shore of the Danube opposite the historic part of Vienna, is the brainchild of Dr Bruno Kreisky, the former Chancellor. He wanted a UN presence to underpin Austrian neutrality and security in times of stress.

Vienna lies within an hour's drive of the borders of communist Eastern Europe and has a long history of conflict and settlement, of ethnic migration and assimilation. Just as what used to be known as the iron curtain has become reasonably permeable at the Hungarian border, so East and West have met, quarrelled and made up throughout history in this area. The Turks besieged Vienna twice: now they are accepted with reasonable tolerance as migrant labour. Czech, Hungarian and Croatian names abound in the Viennese telephone books.

Like the palaces, the art galleries and the opera house, it is a testimonial to an imperial past which continues to make Vienna a magnet to foreigners.

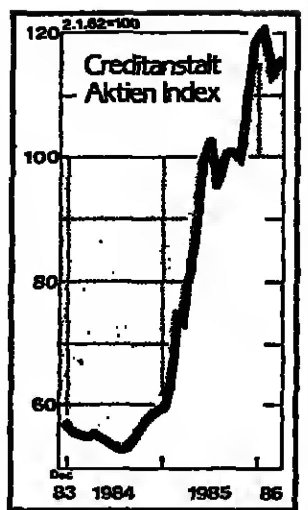


The Lippizaner-Spanish Riding School of Vienna

Narrow market puts limit on further development

Stock Exchange

PATRICK BLUM



AFTER A year in which It outperformed just about every other exchange in the world, the Vienna Bourse is expected to settle down to more moderate growth. Bankers — and they sbould know since the banks dominate trading — do not expect a repeat of last year's performance wben prices rocketted to previously unseen beights.

Dr Guido Schmidt-Chiari, a member of the board of Creditanstalt Bankverein, says that the turnover will grow but that one should not expect a spectacular advance of the index. Buyers, be says, will be more selective.

The reason for the caution is simple. The Vienna Bourse, which had lain dormant for years, still offers only a limited and tightly controlled market. The narrowness of the market contributed greatly to last year's spectacular rise in share prices; but, say more guarded analysts, it also imposes strong limits on future development. The argument is: what helped the Bourse go up can also bring it down.

Last year's performance was certainly spectacular. The official Bourse Index (Base 100 at end of December 1967) rose by over 126 per cent. from 119.58 at the end of December 1984, to 270.59 at the end of December 1985, after reaching a record high of 283.34 in November.

The most spectacular increases were registered in the first half of the year. Share prices then stabilised over the summer, to rise again, though more modestly, in the autumn. Since the beginning of this year the Index has moved up and down, between a high point of 286.45 and a low of 256.42, but the overall tendency has been for a slight decline.

Foreign investors gave the first impetus. Press reports abroad, suggesting that Austrian shares were undervalued compared with those in other international markets, spurred interest from foreign investors and gave a first push to prices. Austrian investors followed, having been given additional incentives by tax reforms and the introduction of new shares.

Because of the Bourse's small size (last year about Sch 6bn worth of shares were traded on the Vienna Bourse itself, roughly half the total turnover in Austrian shares), the suddan increase of demand bad a dramatic impact on share values as well as boosting trading.

Since the beginning of the year prices have tended to drop, with a few exceptions. According to the Bourse Branch Index, set at 100 at the start of each year only, the banks (index up to 105) and the breweries (index up to 104) bave registered new growth. Chemicals (index down to 89), machinery and insurance (both down to 93) bave so far declined, with abares in the building industry remaining roughly unchanged.

A bourse share analyst says the recent downturn will probably be temporary, and that share prices will go up again as new ahares are introduced. A number of new issues are expected this year and this sbould retain interest and activity, be says.

Reforms

Dr Karl Pale, director-general of the Girozentale Bank, and until recently president of the bourse, remains optimistic. "I think that our hourse will develop in a way similar to other international exchanges. We will see ups and downs as part of an overall process of stabilisation," he says.

Increased activity has encouraged tha bourse to introduce reforms. Since the beginning of this year, trading bours have been lengthened by half an hour to two hours. The limit on the movement of share prices on eacb day has been raised from 5 per cent to 10 per cent for new shares during their first five days of trading to allow more realistic prices to be set The practice of quoting shares in terms of percentages of their nominal value bas also heen abandoned in favour of unit prices.

The Government bas introduced measures favouring investors. According to new tax rules which came into force at the beginning of the year, the doubla taxation of equities has effectively been ended. Until this year a company paid corporation tax on profits, and shareholders paid tax on dividend income. This has acted as a disincentive for companies and investors alike. New regulations allow investors to deduct up to Sch 40,000 a year from taxable income, depending on the nominal value of newly isued shares bought.

Disappointments

One analyst says that Austrian investors have tended to invest in shares on a short-term basis. This, be says, is partly the result of the many years of neglect of tha bourse. In the past year investors have tended to switch from one share to another, moving into the latest issue. Buying has tended to be speculative, based on the bope of a rapid rise in the value of new shares.

Tbis, he says, has already ceused some disappointments wben prices failed to rise as high as expectations. This attitude is partly encouraged by tha fact that, in the past, average yields on dividend were low, fluctuating between 2 per cent and 2.5 per cent.

The market is tightly controlled by the banks whicb do tha hulk of the trading on and off the bourse floor. "They advise their clients on what to buy; they know what their clients are offering; and they themselves do most of the buying and selling. So they are in a very strong position to infinence the market," a bourse analyst says.

This has led to accusations that the banks manipulate the market. Last year they made substantial profits from share dealing, through buying and selling on their own account, as well as in commissions. But the bourse'a rise was the result of factors outside the banks' control.

Last year not only helped the banks to increase their earnings; it also boosted the confidence of investors generally. That is something which the banks, which will have to raise additional capital to meet new capital ratio requirements, to be introduced later this year, will want to maintain.

Consensus shaken by crisis

Industry

PATRICK BLUM AND W. L. LUETKENS

SPECTACULAR losses of Voest-Alpine, Austria's state-owned steel, engineering, electronics and trading group, may prove to be a watershed in the history of the country's nationalised industries. The traditional consensus that has helped to shelter Austria's state sector—one of the largest of any western country — has been deeply shaken by Voest's crisis.

The problems besetting Voest—which is Austria's largest industrial group, employing some 70,000 workers—are symptomatic of difficulties throughout the nationalised sector. A solution will not be easily found in a country where compromise has often been an excuse for inaction.

The problems are not uncommon: many of Austria's nationalised industries need profound restructuring if they are to become profitable in a world where competition has become increasingly tough. Bureaucracy, political interference and inefficiency have taken their toll. Without some painful streamlining, the Government will have no alternative in the long term but to continue to provide ever-larger subsidies to cover losses.

The companies grouped under OIAG, the holding company for the bulk of the nationalised industries, have been told that the next package of subsidies will be the last and that they must make a profit.

Rationalisation, reducing the workforce and some closures, is inevitable if the Government sticks to its guns. This may prove politically awkward with a general election due at the latest by spring 1987, but the shock produced by Voest's crisis may give the Government and managers of state-owned industries more room to manoeuvre.

It is usual to compare the indifferent performance of much of state-owned industry, including the industries owned by a state-owned bank, with the much better showing of the private sector. Sparse available figures show that the profitability of industry at large improved last year, recovering to match its long-term trend.

Given the losses of much of state-owned industry, that implies that private industry must have done quite well.

But private industry, too, labours under a poor supply of equity capital and, except for a few shining exceptions, under a paucity of innovation. Expenditure on research and development is low by international standards—US$730 per head of the industrial labour force, compared with $2,700 in Switzerland. Though the Austrian system of apprenticeship in industry is highly praised, there are complaints that it is slow to adapt to innovation.

For historic reasons the share of relatively simple products is high in Austrian industry, and especially in state-owned industry. That is hardly surprising given that Austria was a largely agricultural country until the 1950s.

Dr Bruno Kreisky, the former Socialist Chancellor, wanted Austria to have a foothold in the motor industry. After tentative approaches to Porsche, Fiat, Lancia and Ford, he clinched a deal with General Motors. Attracted by considerable financial incentives, GM set up a plant in Vienna to manufacture engines and gearboxes which started production in 1982. This year GM decided to expand the plant to make electronic fuel injection components.

Success

Another success this year was the decision by Sony, the Japanese audio and electronics group, to set up in Austria its main European plant.

Other attempts have not been as successful. A $285m deal agreed last year between Oki Electric of Japan and Voest for setting up a joint venture to manufacture microchips in Austria has been abandoned after unexpected last-minute refusal of planning permission by the local council where the plant was to be built and because of Voest's financial problems. A joint venture between Voest and American Microsystems (AMI), which started production near Graz in October 1983, has been making large losses, adding to Voest's troubles.

Voest's Sch 11.1bn losses last year can be mainly attributed to unsuccessful diversification. Leaving aside the Sch 3.5bn lost in speculation on the oil market, the bulk of Voest's losses

Herbert Krejci, of the Industrialists Association

were related to new areas of activity taken on to compensate for the decline of the steel industry.

In addition to the oil losses and those of AMI, Voest has had to bear operating losses and investment costs of about Sch 6bn from Bayou Steel, its US subsidiary, since it was established in the late 1970s. Most of these have been written off, but they contributed almost Sch 1bn to Voest's deficit last year.

Another venture abroad, Ferrochrome Philippines, has been making substantial losses. Voest took over a mine in the Philippines on the understanding that the coal produced would be used in a nearby power plant built by a Japanese company. But it was found that the coal was unsuitable for the plant, leaving Voest saddled with a useless mine.

Mr Ferdinand Lacina, the minister responsible for the nationalised industries, admits that there are only three options: to close unprofitable plants, to sell them, or to find new partners. The last is the Government's preferred solution since it would prevent having to countenance large-scale lay-offs.

In the meantime the Government will continue to provide subsidies, but only on the understanding that loss-making companies will prepare plans for restructuring with the clear objective of returning to profits quickly.

Mr Franz Vranitzky, the Finance Minister, says that the nationalised industries will have to come out of the red within three to four years and he has warned that the Government would not sustain loss-making enterprises indefinitely.

Since 1980 the OIAG group alone has received Sch 26.1bn in subsidies. An additional Sch 1bn has been disbursed to Oesterreichische Landerbank to make up for the collapse of three of the bank's main industrial debtors in 1981.

Subsidies totalling another Sch 7.3bn were agreed in November to cover the losses of three of the industrial holdings of Creditanstalt Bankverein, the country's largest bank. To these must be added billions in subsidies disbursed to the Austrian state railways and energy companies.

Solutions will not come easy. The OIAG group of companies accounts for more than 20 per cent of Austria's exports, employs more than 100,000 workers and almost a fifth of Austria's industrial workforce. Critics say it is dominated by vested interests and that it has become almost impervious to change.

This is not entirely fair as Voest's attempts to diversify show. There have also been some efforts at rationalisation. Some loss-making steel plants have been closed and more closures are expected to follow.

Dr Herbert Lewinsky, Voest's new chairman, admits that unpleasant decisions will have to be made but he also recognises that change will take some time. He says Voest is overmanned and overstretched but for the company's larger loss-makers more time will be needed to see if they can be restructured or whether they will have to be closed. But party political considerations may cause him more difficulty than he has bargained for.

The need for structural changes in Austrian industry has been debated for some time, as have obstacles to restructuring nationalised concerns. There are some indications that change is afoot. Debate has been joined about state-owned industry. Austria has become a net exporter of machines and electrical equipment. Productivity has been growing more quickly than in West Germany.

But as the case of Voest shows, the way ahead will remain arduous.

PROFILE: HERBERT LEWINSKY OF VOEST-ALPINE — BY W. L. LUETKENS

Taxpayers may prove ultimate threat

DR HERBERT LEWINSKY, a precisely spoken 57-year-old, has exchanged a successful career in the international oil business for the hot seat in Austrian industry.

The socialist government of Dr Fred Sinowatz called him in to sort out the state-owned steel and engineering concern, Voest-Alpine, where mounting losses had shocked the Austrian public. The political consequences for the socialists of not staunching the haemorrhage could be incalculable.

Dr Lewinsky knows that he has a double brief: to get Voest out of the red—which, he says, will take time—but to do it in a manner which can be accepted, however, grudgingly, by the trade unions and by regional politicians afraid of job losses in already depressed areas.

"Anyone who claims that he can run . . . a huge national company without political interference is, of course, naive," Dr Lewinsky says. "But the question is whether or not you leave certain economic parameters in the hands of the management."

Dr Lewinsky will need both firmness and tact: the Chancellor, Dr Fred Sinowatz, has repeatedly said that nationalised industry must be rid of political backseat driving—but also that he does not wish to see "industriel graveyards" resulting from wholesale closures.

Herbert Lewinsky

The new chairman of the Voest board thinks that he can cope. The concern's losses of Sch 11bn (£500m) last year he says, triggered decisions from the government such as would not have been taken before.

He says that he wants to work out Voest's problems together with the union-dominated works council, representing all staff, and with the understanding of the local politicians. "If in spite of this effort we should run into ideology that keeps us from doing the economically reasonable thing then . . . we can mobilise the taxpayers."

It is an implicit threat to appeal over the head of his masters, the government, to the government's masters in the electorate. Dr Lewinsky could not be so bold but for the shock—he prefers to call it an opportunity—caused by Voest's losses.

Accumulated losses have reached the Sch 20bn mark. They have two root causes: the world steel crisis and political interference. Previous managements were forced to by Dr Sinowatz's predecessor to take over an unprofitable special steels concern in the interests of preserving jobs and to keep open unviable steel facilities in a depressed region of Styria (the Alpine bit of the concern's full name).

Ill-judged diversification into making commodity chips and a disastrous speculative fling in oil futures markets last year did the rest.

Oil speculation was stopped abruptly (perhaps too abruptly) on government orders before Dr Lewinsky's arrival. He will not say what else he will close. For a start it is more likely to be cutting at the edges rather than anything especially dramatic. He speaks of an emergency job, cutting "the weakest and most costly situations."

Dr Lewinsky, an Austrian citizen of part-Viennese, part Silesian descent, has had his entire business career so far with Mobil Oil. After gaining his doctorate in law at Vienna University he joined Mobil in Austria in 1951. From 1963 to 1965 he worked in charge of sales in the New York City area.

Back in Vienna, he joined the board of the Austrian subsidiary in 1965, became chairman in 1967 and then moved on to become board member, and later chairman, of the much larger Mobil operation in Germany. From 1975 to 1978 he served in London as head of the European section of the international division.

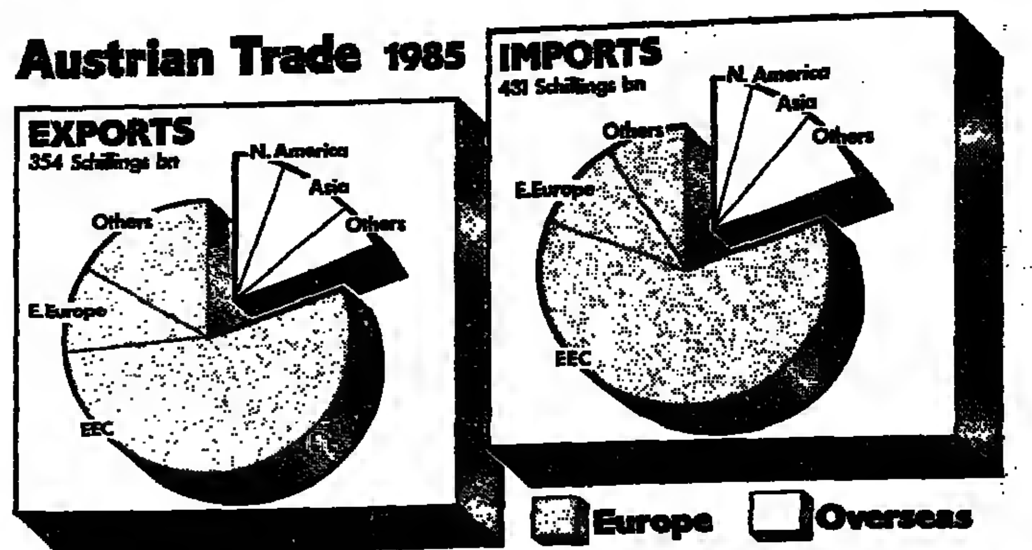
Many Austrians, by no means all trade unionists, are afraid that a career in a tightly-run multi-national may not have prepared Dr Lewinsky for the more pliable style customary in Austria. But, in fact, he says that Voest needs a more "participatory" style of management, drawing on the experience of executives just below board level. One of his first moves at Voest was to call in these men to introduce the new management and for a talk-in. That, he was told, had never happened before. "If they start to think about their problems, they'll come back with the answers."

Dr Lewinsky knows that sooner or later he will face confrontation with one interest or another. Should he then fail to get the necessary backing, "I've made it clear that I don't need the job—I can live without it."

Hungry for slice of EEC cake

Trade

W. L. LUETKENS



INDUSTRY in Austria exports more than half its production by value compared with 35 per cent before the first oil shock in the early 1970s. On the face of it that is a solid achievement, but analysts in Vienna believe that more can be done.

The high export quota, like the high import penetration of the Austrian market, is typical of a small western European state. Compared with Switzerland, in particular, but also countries like Sweden and the Netherlands, the Austrian performance in world markets does not look good.

In 1983 Austrian sales expressed as exports per head of the population, were barely above half the average for nine European small states. More significantly, Austrian exports have a strong bias towards eastern Europe. In 1983 it was 12 per cent of total exports as opposed to 3 per cent in the case of Switzerland and Sweden, according to Dr Helmut Kramer, head of the Wifo economic research institute in Vienna, citing OECD figures.

Eastern Europe normally takes about 11 per cent of Austrian exports though in the mid-1970s that share temporarily climbed close to 17 per cent. The Polish debt crisis and retrenchment in some other Comecon countries then took their toll.

Further retrenchment is in prospect this year because Comecon earnings from the sale of oil and gas to western Europe will decline because of the collapse of the world oil price. It is not the best augury for an Austrian trade fair to be held in Moscow next month.

Austrian Comecon exports were pushed strongly during the 1970s to safeguard high employment in industry and supplies of natural gas from Russia and of coal and electric power from elsewhere in Comecon. Austrian banks extended large amounts of export credit. Because Austrian domestic interest rates tend to be lower than those in countries like Britain, Italy and France, and because the banks refinanced themselves on the low-interest Zurich and Frankfurt markets, rates charged to customer were low, without requiring a large element of subsidy.

However, profitability was low and there may have been an indirect subsidy in the equity capital that the state made available to nationalised industry and to the industrial affiliates of a state-controlled bank.

Recent Austrian successes in Comecon trade have been largely due to the finance extended, says Dr Jan Stankowsky, trade expert at the Wifo institute. He estimates Comecon liabilities to Austrian banks at Sch 200bn (about £9bn) and the Austrian share in eastern European debt to western banks at 13.8 per cent in 1984. The implication is that Austria has taken on a disproportionate share of risks, since its share in western sales to Comecon was only 5.4 per cent.

The orientation of Austrian exporters towards Comecon is strong but western Europe, and especially West Germany, with 30 per cent of Austrian sales, are the main outlet.

Dr Herbert Krejci, secretary-general of the Austrian Industrialists' Association, says his members are anxious that Austria, as far as neutrality permits, should partake in the development of the EEC internal market. Austria has a treaty with the Community permitting duty-free export and import of industrial goods. It does not take part in the Common Agricultural Policy.

Restrictions

In keeping with its strong trade ties with Europe, Austria is not well represented on the North American and Far Eastern markets. In 1983 some 3.6 per cent of Austrian exports went to North America, whereas the Swiss and Swedes sold 9.8 and 8.9 per cent respectively of their exports there.

During the recent phase of a high dollar, Austrian exporters increased sales in North America substantially, but now that the dollar is down much territory will be lost. Austrian steel, which in any case had been hit by American import restrictions, no longer is competitive there.

One reason for the relative inattention to America is the traditional closeness of trading links with Germany, and especially West Germany, based on a common technology and culture. This connection has advantages, but it has slowed Austria's advance from being a supplier of components or relatively simple goods such as wood, paper and steel, to a supplier of finished products.

Dr Kramer sees this as a weakness because it has prevented many manufacturers establishing in world markets as quality producers in their own right.

The case must not be overstated. Some Austrian manufacturers are powers on the world market — some are dominant powers. Almost without exception they are small even by Austrian standards and privately owned.

But most Austrian exports are less specialised and sophisticated, so prices are at the mercy of a competitive world market. That means that the advances Austria has made with its market shares by volume has not been matched by similar advantages in value.

The close Austrian-West German links do not make things easier for exporters elsewhere serving the Austrian market. Dr Stankowsky sees opportunities at the very top and bottom of the market for consumer goods.

The market is small but affluent. To a certain extent it can be considered an extension of the West German market, since that country's TV and publications have a wide following in Austria.

PROFILE: AKG

BY PATRICK BLUM

Reputation built on innovation

PRINCE Charles, President Reagan and Fidel Castro have used them, so have the pop group Abba, the Vienna Philharmonic Orchestra, Frank Sinatra and Tina Turner, and some of the world's greatest sopranos. Microphooes produced by Akustische und Kino-Gerate Gesellschaft (AKG), a medium-sized private Austrian company, have won a worldwide reputation as some of the best professional microphones.

Comparisons with other companies are difficult because of the wide range of products and high degree of specialisation in the industry. But AKG says that with more than 1,300 of its patents used worldwide it has few rivals and many competitors.

Since modest beginnings in 1947, AKG has built its reputation with several innovative products, many of which set standards for the industry. The company employs about 650 people and the emphasis on development and technical excelleoce remains a key element of its success and philosophy.

About 8 per cent of turnover is devoted to research and developmeot annually, far above the average for Austrian industry. Since 1973 the company has used some of the most advanced manufacturing processes, including computer-aided design. Mr Leopold Steinkellner, AKG chief executive, says that between 50 and 60 per cent of the company's turnover comes from products less than five years old.

Close contact is maintained with large customers to discover problems and what new products they might need. Twice a year technicians from Vienna meet their BBC counterparts for detailed discussions. "The BBC is still considered to have the highest technical standards in the world. If they take a product, others follow, so it is a very important customer for us," Mr Steinkellner says.

AKG also maintains close collaboration with universities and research institutes in several countries, sending some of its researchers on secondment. But product development is closely guarded and carried out exclusively in Vienna. The company is thinking of moving into new areas but only in fields where it is experienced.

Exports

Consolidated groop turnover last year was Sch 549m (US$36m) with exports accounting for about Sch 335m Net profits were Sch 25.6m for the year ending June 1985 and the company paid a 14 per cent dividend to shareholders.

The largest share of exports goes to the US aod West Germany (about 25 per cent each), followed by the UK, France, Italy and Japan. The domestic market takes about 10 per cent of group sales.

Exports are crucial, since the Austrian market is too small and could not sustain the company's development efforts, Mr Steinkellner says. In pursuit of foreign markets it has established trading and servicing subsidiaries in West Germany, the UK, Japan end, last year, in the US. A network of distributors and agents has been built in about 100 countries.

As additional back up, it has also established co-operation with companies in Britain, Switzerland, India and recently in China for manufacture of AKG products under licence. Exports have to be approved in Vienna, and product quality is closely controlled to maintain AKG's reputation. Under the agreement with China AKG will supply knowledge and equipment and supervise the installation of a manufacturing plant in Shanghai.

Discussions are taking place about establishing a joint venture in the US. This aims to take advantage of the high level of development in the electronics industry there, expand sales and help overcome potentially damaging exchange rate fluctuations.

About 37 per cent of productioo in Vienna is concentrated in high-performance professional broadcasting and recording equipment and public address systems; 23 per cent in consumer electronics (headphones, cartridges, microphones); and 31 per cent in telecommunications equipment including air-traffic control, telephone and measuring equipment.

In 1984 the company widened its capital base by issuing shares on the Vienna Bourse. A new holding company, AKG Holding, was established with a nominal capital of Sch 84m, with control of 75 per cent of the shares of AKG, the manufacturing company. The remaining 25 per cent of the shares is held by Dr Rudolf Goerike, one of AKG's two founders, who at 78 still plays an active role in the company. The shareholding of Mr Ernst Pless, AKG's other founder, was sold by his family in the mid-1970s.

Prince Charles using "AKG" microphones

AKG Holding is 30 per cent owned by private investors, 30 per cent by the Oesterreichische Landerbank and the Girozentrale Bank, and 40 per cent by Philips Austria, which relinquished its majority control when the company went public. Philips's involvement in AKG dates back to 1962 and was designed to take advantage of AKG's expertise in acoustic equipment.

The shares have been among the star performers on the Vienna Bourse, rising from their initial price of Sch 1,550 per Sch 1,000 share in October 1984 to Sch 5,600 this month. Other share issues are planned.